

THE ECONOMIC PROBLEM
OF THE PEACE

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A Plea for World Socialist Union

BY

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TO
MY COMRADE K.O.
WHO FIGHTS ON IN THE
UNDERGROUND MOVEMENT
OF NORTHERN EUROPE

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A SOCIALIST WORLD VIEW

AS THE END of the war approaches, the minds of men turn in hope mingled with fear to the problems of the peace. How can we eradicate the social evils which bred the most destructive war in history? How can we build a durable peace? These are the questions which dominate discussion about the post-war world. To state our problem clearly is a big step towards prescribing a solution. Are our present ills the result of a transitory dislocation in our civilisation? Or are they the outward and visible signs of the death agony of one social order and the birth of another? Some years ago, Professor Laski depicted the crisis of our times with historical insight.

“Our danger and insecurity are no different in their ultimate causation from the danger and insecurity which brought about the collapse of Greek and Roman civilisations. We have come to the end of an economic system exactly as they came to an end. Our relations of production contradict the forces of production exactly now as then. . . . To see the problem once more, in its proper perspective, one must think oneself back into a period like that of the Reformation. Then, as now, two great systems of social organisation were struggling for mastery. Protestantism did not establish itself in twenty years. It took over a century and a quarter of bloody war for men to accept the compromise of live and let live.”¹

Professor Laski's evaluation of the endemic crisis through which we are living raises urgent questions. Will Western civilisation follow Greece and Rome into obscurity? Must humanity endure, at best, a century and more of insecurity,

¹ H. J. Laski, *Liberty in the Modern State*.

dictatorship and war before a new, stable society emerges? How far is there reason to hope that the advance of scientific knowledge, in man's control over his environment, can banish the fear of a dark age and cut short the process of painful readjustment?

Following Laski, let us look at the economic system and try to discern the nature of the fundamental maladjustment of which he writes. In its economic and political aspect the Protestant Reformation was the first decisive battle of the rising bourgeoisie against the forces of feudalism; it was followed by the second and third major struggles, in the shape of the Civil War and the Glorious Revolution in England and the French Revolution of 1879. These great upheavals gave birth to a new economic system. Early commerce became the basis for capital accumulation, the Nation State curbed the monopolistic power of the cities and provided a strong central government to give a wider field for economic activities, while the Enclosure Acts created a propertyless labouring class. In this way arose industrial capitalism, based upon commodity production, private profit and international trade, while concurrently there grew the Nation State as it has been known in the modern world. The Industrial Revolution produced an economic theory which held that *laissez-faire* capitalism was a stable, self-adjusting system capable of indefinite expansion. In this utopia of the Classical Economists, commodities, capital and labour moved freely across frontiers, and free competition guaranteed that the lowest bid took available custom. "In this imaginary world", as Mr. H. N. Brailsford has put it, "the State was economically an irrelevance and war pure cretinism." Human development was guided by the providence of an unseen hand, for each man, by following his own bent, contributed to the general good. With Lord Keynes we might say that "Ricardo conquered Britain as completely as the Holy Inquisition conquered Spain".

In a Britain dominant in the world market and still expanding, the few cautionary words of the Classical Economists were soon forgotten.¹ Say's Law, which holds that, since costs are also incomes, no problem of effective demand, no shortage of consumers' purchasing power, can arise, became an axiom of economic theory. And in this "best of all possible worlds", those who challenged its assumptions, such as the late Mr. J. A. Hobson, were denounced as heretics, driven from scholastic posts, and contemplated with the scorn with which a modern scientist regards the claim that the earth is flat.

The statesmen of this century were reared in this tradition. But they found themselves confronted by a world in which tariffs fenced the frontiers and capital and trade followed the imperial flags. As monopoly replaced free competition, as mass unemployment became a chronic social phenomenon, and as economic nationalism became the fashion, orthodox complacency was disturbed. But it required the impact of the world economic crisis to reduce to dust the assumptions of the classical theory against which the heretics had flung themselves in vain. The growth of monopoly and the intensification of trade depressions were inexplicable in the light of traditional formulæ. Moreover, in a world where the State was intervening ever more actively in every department of economic life, the gap between politics and economics left by the Liberal Utilitarians was obviously absurd.

Slowly, via the theory of money, economists then returned to the problems which had "lived on in the underworlds of Gesell, Hobson and Marx"—the puzzle of effective demand, the attempt to discover the law of motion of capitalism by dynamic analysis. There were also attempts to re-examine the influence of the economic factor in history and to estimate the reciprocal influences of politics and economics. It was in

¹ E.g., Ricardo on the dangers of falling profit rates. See Marx's *Capital*, Vol. 3, p. 304.

these circumstances that in the middle 'thirties Lord Keynes produced his epoch-making work, *The General Theory of Employment, Interest and Money*, which reached an explanation of the trade cycle not essentially different from that of Marx. In *The Economics of Imperfect Competition*, Mrs. Joan Robinson developed a theory of monopolistic competition, which in essence, though not in form, had much in common with the Marxian theory of exploitation. Professor George Sabine in his *History of Political Theory*, while clinging tenaciously to the philosophic tenets of Hume, was found to write:

"It is probably not an exaggeration to say that, by his development of this suggestive hypothesis [the Marxian conception of history which emphasises the decisive, though not the exclusive, influence of the mode of production—W. P.] Marx was the most important social philosopher in the whole of the nineteenth century."

This re-orientation of academic theory ended a whole epoch of downright obscurantism, though, as we shall later show, it now threatens to inspire a new obscurantist movement. The modern academic theory is as much a product of the decay of capitalism as classical economic theory and Liberal Utilitarianism were the expression of capitalism in the ascendant. Thus modern economic and political development which shattered the orthodox theories of the academicians also drove them—albeit largely unconsciously—towards Socialist, indeed Marxian, conceptions.

It is now possible to describe the central dilemma of our pre-war economic system in terms which unite Keynes and Marx. Under capitalism, if consumption rises more slowly than the productivity of labour, effective demand is restricted, profit rates fall and investment declines. On the other hand, if consumption is allowed to rise as fast as the productivity of labour, investment cannot be increased sufficiently rapidly to maintain economic activity. Hence

recurrent trade depressions resulting from the gulf between production and consumption.¹ This is the fundamental maladjustment in our economic system to which Professor Laski refers, and, on the assumption that the economic is primary, the central cause of the political and social instability of the modern world.

On this premise it is possible to construct an illuminating world view. It is the substance of the theory of both Marx and Keynes that capital accumulation is a permanent law of the system, and that a falling profit rate follows in its train, resulting in economic crises. Socialist theorists have always perceived a connection between economic crises, imperialism and war. Lord Keynes sees it dimly in the concluding chapter of his book, while his colleague, Mrs. Robinson,² would appear to endorse even the most extreme Marxian formulation of the theory.

In an economic system resting on private property and deriving its dynamic from the prospect of profit, it is a life-and-death matter for those in authority to sustain the rate of profit. Monopoly at home and imperialism abroad are the direct outcome of the tendency towards falling profits. The quest for a satisfactory profit yield from industry stimulates technical discoveries and inventions, the use of which often requires huge aggregations of capital. Only the larger firms can afford to keep pace with the new technology, which gives an advantage in the competitive struggle. Thus the smaller firms are squeezed out by the giants, and the road to monopoly is open. In the short run a technical discovery absorbs "surplus" capital and assists in maintaining the rate of profit, but when fully incorporated into the productive process it speeds up capital accumulation and tends to

¹ This is not the place to give detailed proof of this proposition. In its Marxian form it may be found in *Capital*, or in simplified form in John Strachey's *Nature of Capitalist Crisis*; in its Keynesian form in the *General Theory*, or simplified in Mrs. Robinson's *Introduction to the Theory of Employment*. For a comparison of Keynes and Marx see Mrs. Robinson's *Essay on Marxian Economics*.

² *Fabian Quarterly*, January 1943.

depress profit rates. Thus the economic urge to monopoly increases as a result of both technical advance and voluntary combinations to eliminate competition.

The very large capital required by modern industry leads to substantial investments by the banking system, in which the trend to monopoly has triumphed *par excellence*. Financial and industrial capital merge. This is a further influence towards combination. When a bank has investments in an industry, self-interest dictates that it should demand a cessation of cut-throat competition between the firms to which loans have been made, because the bank's capital may be imperilled. In the 'thirties the Bank of England, having obtained an interest in shipbuilding, iron and steel, and cotton during the slump, dictated a policy of monopoly or semi-monopoly in these industries.

There is yet another force making for monopoly—State intervention such as occurred in Britain in the 'thirties as a result of the economic crisis. Monopolies today seek to hold up prices and restrict production to levels which yield satisfactory profits. Hence the destruction of goods, the closing of redundant firms, the dismantling of shipyards. Plenty menaces the rate of profit. The answer of capitalism is monopoly, an attempt to usher in a new era of scarcity economics.

Imperialism abroad accompanies monopoly at home, and is likewise a capitalist answer to the economic dilemma of our time. For imperialism temporarily solves the problem in three ways. First, the export of capital to relatively undeveloped territories where land and labour are abundant and cheap—*i.e.*, where rent and wages are low—yields relatively high profit rates; second, the control of the sources of raw materials leads to lower costs and prices and an improved position in the competitive markets of the world; third, imperialism is an outlet for the glut of consumption goods which accompanies trade depressions. Thus imperialist expansion is not merely a policy *chosen* by capitalist statesmen. It is the

immanent logic of an economic system based on private property and private profit. Choice implies the existence of alternatives, and for capitalism there is no such alternative unless suicide *via* falling profit rates be so termed. But if imperialist expansion is the immanent logic of the system, then so is war. For imperial power is armed power, and the two world wars represent imperialist expansion carried to the point of inter-imperialist conflict. It is no valid objection to this argument to urge that in the long run imperialism does not solve the problem of capitalism. It is true that the industrialisation of formerly backward territories intensifies the total problem of capitalism. But the maintenance of the profit rate is an urgent short-term problem, a matter of life and death for the system.

Inseparably linked with this analysis is the problem of capitalism and the Nation State. For the Nation State arose with capitalism and is today the armed power of capitalism. It provides tariffs, quotas, etc., to fence off the markets of the monopolists. It provides the armed sanction to enforce acquiescence by the common people in poverty in the midst of plenty at home, and to press monopolists' claims to territory, markets and imperial might abroad. In its Fascist form—the consummation of present trends—it is the instrument of autarchy, the weapon of terroristic dictatorship at home and of predatory imperialism abroad.

The Nation State which finally emerged from the revolutions and wars of 1789, 1815, 1848–9, 1864–6 and 1870 has become an anachronistic absurdity. Once the harbinger of the growth of the productive forces, it now limits and obstructs them. At root the two world wars represent a conflict between the forces of production and the Nation State. Just as the scarcity economics of capitalism are outmoded in an age of mass production, so, with the exhaustion of the home market and the resultant economic interdependence of the world, the sovereign power of the Nation State is obsolete.

After the last war the peoples of the world failed to grapple in a bold and imaginative way with the problems thrown up by the decay of capitalist civilisation. The *economic* problem of the peace was ignored. The price of failure was literally hunger, slavery and massacre for millions; the hunger of mass unemployment, the slavery of dictatorship, the slaughter of world war. The policies of the inter-war period failed because they refused to recognise that we had come to the end of an economic system. Political schemes such as the League of Nations left untouched the overriding economic problem of the modern world. And chaos and insecurity nurtured Fascism and fed the flames of war.

Can we now avoid the century of bloody war and terror which followed the Reformation? If the answer is no, then in the era of the thousand bomber raid the technical foundations of our civilisation are in jeopardy. And the question becomes, can the West escape the fate of Greece and Rome? We confidently assert that the means for our escape lie to hand to be used if we so will. At our disposal is a knowledge of social dynamics unknown to the Greeks and Romans with which to diagnose our ills and master our destiny. The imperious logic of our times is driving the academicians from their citadels of pedantry. The crisis of our era is being reflected in the realms of social science, vindicating the stand of the heretics, in particular the Socialists, of earlier times. In so far as the development of political and economic theory gives man a grasp of the fundamental maladjustments in his social system, it can help to cut the Gordian knot of the modern world with the sharp sword of knowledge and reduce to a minimum the bludgeoning of brute force.

The aim of this book is to show that the economic problem of the peace embraces the two-fold task confronting humanity today. A Socialist planned economy must be built, and economic separatism must be ended in an international society.

CHAPTER II

THE NAZI "NEW ORDER"

HITLER'S "NEW ORDER" is a despotism of unexampled ruthlessness and cruelty. That it is irremediably foul and must be destroyed is beyond argument. The pertinent question is: *How* destroy it? An attempt to answer this question in a manner which gets to the root of the problem involves investigation and analysis rather than passionate denunciation. For a military victory alone may destroy Hitler, yet leave intact the causes of Nazism.

On the one hand Nazism has been described as nothing but the naked dictatorship of monopoly capitalism, and on the other as a completely new economic system developing from and suppressing capitalism. The essential nature of Nazism can be more readily deduced from the history of German capitalism than from the mass of decrees issued by the Nazis. Adopting the historical approach to our problem, the first fact of significance is that in Germany heavy industry began not with independent business-men, but with joint-stock companies, and, as a consequence, the relationship between the State and industry and between the banking system and industry has always been closer than in countries such as Britain. Second, Ruhr-Lorraine, with its iron and coal deposits, is the most powerful geographical base for heavy industry in Europe. German capitalism arose too late to follow the imperialist "norm" set by Britain, and in consequence it was the Continental economic system which grouped itself around German industrialism, as we shall later show in some detail. Germany rapidly outstripped her competitors in steel output and technical progress, thus becoming a powerful factor in world politics. The dilemma of capital-

ism, the inherent gulf between production and consumption, which had driven Britain and France to penetrate undeveloped territories all over the world, shaped the policy of the rulers of Germany. At the end of the last century German ascendancy in Europe, which was menacing France and Britain, began to take on a world importance. The decision to cut the Kiel Canal, the first Navy Law, and the project of the Berlin-Bagdad Railway, were outward and visible signs of a world challenge. In 1914 war ensued to decide which of the Great Powers was to enjoy the biggest opportunities of capital investment within a still-expanding world system.

Germany failed to solve her economic problem in either of the two possible ways: the temporary method of imperialism, by reason of her defeat in the First World War; the permanent way of Socialism, because the revolutionary Spartakists failed in their bid for State power at the end of the war. The 1920's increased the German economic problem. The great inflation was a deliberate policy on the part of monopoly capitalism, for authoritative opinion now holds that the mark could have been pegged in 1920. In the general rush to exchange money for real wealth the large firms often bought up their smaller competitors. The Stinnes group of industrialists even used the technique of borrowing on a large scale from the banks, using the money to buy up small firms, and repaying the loans when the value of the mark had fallen still further. In this way monopoly was intensified. The Dawes Plan later provided the working capital which German capitalism needed in order to get on its feet again. In considerable measure American capital was used to carry through gigantic schemes of amalgamation and rationalization. By 1930 Germany possessed a heavy industry quite out of proportion to her population, agriculture and opportunities for overseas investment. In these circumstances the great depression which struck the capitalist world hit Germany with especial force. Between 1929 and 1932 the production of

capital goods fell by 70 per cent, resulting in depression for the entire economy.

In this catastrophic crisis there were still but two ways out—either imperialist aggression or Socialism. For some years the old political parties of German capital had been losing face with the German people, and there was an increasing tendency for the big industrialists to turn to the Nazi Party, whose extreme nationalism was in line with the psychological reaction to the Versailles Treaty, and, since it necessitated huge armaments, with the desires of German heavy industry. The Nazi Party gained a mass basis in Germany, mainly from the ruined middle-class and the lumpen-proletariat. The size of the Nazi vote bore a close relationship to the unemployment figures. Nazism may be accurately defined as a movement financed by monopoly capitalism, deriving its mass support mainly from among the middle-class and the unemployed, to smash the Labour and Socialist Movement and to embark on a policy of aggressive imperialism.

There were two phases of economic recovery under the Nazis. For nearly two years the Nazis continued the public-works schemes planned by earlier Governments. As Mr. Guillebaud¹ has shown, this period had the characteristics of the usual upswing of the trade cycle, albeit under the influence of stimulants. At the end of 1934 the Nazis began to subordinate the entire economy to rearmament. As capitalism at war had previously indicated, it is possible by means of an armaments economy to achieve full employment. The problem confronting the Nazis was: How prevent the whole scheme from being wrecked by inflation? As Germany approached full employment (which according to Dr. Thomas Balogh was reached by the beginning of 1939), the danger lay in competition between business-men for the available supplies of materials and men, which would drive up prices,

¹ *The Economic Recovery of Nazi Germany.*

costs and Government expenditure in spiral fashion. It was in preparation for this situation that a mass of controls and regulations were instituted by the Nazis. These controls are principally of three kinds: (a) control of prices, including wages, which ensures control of costs; (b) control of foreign exchange, and with this of imports and exports; (c) control of investment. The function of the first two types of control is to restrict the demand for consumption goods; the purpose of the last to ensure that investment takes place and is directed into the arms industry. Dr. Balogh¹ has calculated that between 1932 and 1937 public investment rose from 1,700 million marks to 9,000 million marks per annum, mainly on armaments, while private investment rose by about 4,500 million marks per annum. These figures are significant because they give some idea of the amount of State investment necessary to obtain full employment within a system resting on a profit basis.

Those who challenge the capitalistic nature of the Nazi economy have made much of the limitation of the distribution of dividends to 6 per cent (or in some cases 8 per cent). Yet it is clear that this was necessary for two reasons: to direct investment into arms production, and to prevent excess ruling class expenditure on consumption goods. In approved cases—e.g., armament firms—the surplus is ploughed back into the industry. The experience of heavy industry is that it does very well during booms and has a thin time during depressions—6 per cent as an average is a reasonably good return. And it should be noticed that it is simply the *distribution* of dividends which is limited. In 1932 German heavy industry was working at 30 per cent capacity, which is scarcely a profitable level.

The Supreme Economic Council which the Nazis set up when they came to power consisted of heavy industrialists and bankers: Krupp Von Bohlen (armaments), Thyssen

¹ *Economic Journal*, September 1938.

and Vogler (steel), Von Siemens (electricity), Boach (dyes), Diehn (potash), Von Schroeder, Von Finck and Reinhart (bankers).¹ A more recent investigation by Dr. Franz Neumann² shows clearly that the machinery of the Nazi system is largely based on the normal structure of German capitalism, and that both the functional and territorial agencies are effectively dominated by representatives of the monopolists. He gives the following figures: The personnel of the leadership of all national groups, of the six transportation groups, of all economic groups, and of the branch groups in the national group industry consists of 20 capitalists, 17 capitalist-managers, 31 corporation managers, 27 organisational managers and secretaries, 13 representatives of public corporations, 9 civil servants and 56 for whom no biographical detail is available. Cartelisation has been speeded up under the Nazi regime, and the complaint is often made that the cartels dominate the economic groups, rather than the reverse. These groups allocate quotas of raw materials, and the vote of a particular firm is determined by its quota, thus ensuring the power of the larger firms. Monopoly has also been intensified. The number of corporations has declined, and the average capital holding of each has increased. The so-called Community Financing Schemes are in reality a method whereby the big firms are able to use the combined resources of the industry, including those of the small and middle-sized firms.

The nationalised sector of the German economy has not increased since 1933; indeed, that previously under public control is now under the joint control of public and private managers, while in the case of the Steel Trust the shares were restored to the previous owners at a loss to the State. Even in the case of new industry, where technological changes requiring vast capital expenditure necessitated State backing

¹ Fenner Brockway, *New Leader*, August 23rd, 1941.

² *Behemoth*, Part 2, p. 316.

to even the biggest combines, there has in many cases been no attempt to acquire it for the State. Self-financing by the great corporations has not absorbed their available funds, industrial capital has further penetrated banking and insurance, and the mastery of industrial capital has extended. This does not signify the end of finance-capitalism, but its appearance in a new form.

There are some who identify capitalism with free competition. It is quite wrong, however, to counterpose competition and monopoly as mutually exclusive opposites. The cartel, for example, is at one and the same time a proof of the existence of competition and an attempt to control it in the total interest of the capitalist producers. Moreover, monopoly is seldom complete in the sense that the market is completely under the control of a *single* producer. More often several giants are in the field, and their policy alternates between fighting for a new division of the market, and an armistice at the expense of the consumer. The *German Business Cycle Institute* estimates that all the raw material and semi-manufactured goods produced in Germany, and about half the finished industrial goods, were bound by monopoly or cartel agreements. In this connection it should be remembered that key raw materials and semi-manufacturers have always been the principal prey of the monopolists, because control at this point in the industrial chain gives a substantial measure of total control. Competition continues in a masked form in the cartels in the quest for quotas and consumers. In the measure in which it has been suppressed this represents a truce between the various sections of German capitalism in a united struggle with their rivals who control other capitalist States. Thus even the partial suppression of competition is merely a condition for a higher and more intensified form of competition—*i.e.*, competition has been transferred from the national to the world arena.

The critics of Marxism who have laboured to demonstrate

the eclipse of Big Business by the Nazi Party incline to the perverse habit of arguing from the particular to the general. The case of Thyssen and the rise of the Goering Works have been adduced *ad infinitum*. The facts, however, hardly support the radical conclusions which are often drawn. Thyssen was vanquished economically long before his flight from Germany, which fact is an interesting sidelight on the claim that competition has been suppressed within the Nazi economy. In any case, one swallow doesn't make a summer, even in Nazi Germany. As for the Goering Works, a brief comment will suffice. First, they have tackled jobs which ordinary capitalism found difficult—e.g., the working of low-grade ore mines. Secondly, this is not the first time that political power has preceded economic, though the general pattern in history is the reverse. Finally, it is scarcely surprising that the monopolists have had to share a part of their booty with hired bullies and assassins.

Before the present war it was often argued that the Nazis had conquered the dilemma of capitalism. This was a misreading of the true position. Capitalism has always found a temporary escape *via* an armaments economy, the end of which is war. Armaments are products of heavy industry, but they do not produce consumers goods to glut markets and endanger profit rates. It was sometimes suggested that it would have been possible for the Nazis to have switched the system over to the production of consumption goods. History has now dealt with this facile assumption by revealing the historical end of the Nazi economy—predatory imperialism. The truth is that the system could have been diverted to satisfy human needs only if the State had become the wholesaler of consumption goods, had redistributed the national income, and had suppressed production for profit. That is, if the Nazis had become Socialists, and had administered Germany as a Socialist State—a hypothesis which has political as well as psychological weaknesses. It may be readily

conceded that some German capitalists would have preferred to maintain a competitive economy, and would even now welcome a restoration of the pre-Hitler period. But in the acute crisis of the 1930's there was no way out except Nazism for German monopoly capitalism, either as a whole or in parts. Thus in a fundamental sense Germany is capitalist; the Nazi economy represents an historical working out of the dilemma of German capitalism, and is but a temporary escape from it; and the basic instability of the capitalist economic system remains, though it is masked by State regimentation for war purposes.

Nazism in Germany represented the re-emergence of a forthright imperialist policy. Just as Hitler's power arose from the economic crisis of Germany, so the Nazi "New Order" grew out of economic anarchy in Europe. As we shall show in the next chapter, the European economic system was grouped around Germany. The Treaty of Versailles, which sought to cripple Germany economically, also destroyed what semblance of economic balance Europe had possessed. In the inter-war period the peasants of Europe, who with their families total 100 million, were poverty-stricken, lacking credit facilities and adequate markets. The world economic crisis gripped them along with Germany, but in a different way. The growth of autarchic tendencies in the industrial countries of the West and the cessation of capital export intensified the economic problem of the peasant countries of Eastern and South-eastern Europe. In their drive to war, the Nazis made full use of this situation. Using the plight of these countries to drive hard bargains, Nazi Germany secured a very substantial share of their foreign trade, and influence in their economic life generally. The political conquest of Europe was complementary to economic penetration. The Nazi "New Order" is an extension of imperialism, political and economic, to the European Continent itself.

Let us examine the nature and structure of Hitler's "New Order". From speeches of Nazi leaders, articles in the German-controlled Press, and, above all, in the actions of the Nazi power in Europe, the general shape of the Nazi scheme can be discerned. As the fortunes of the Nazi war machine have changed, so the shape of the "New Order" of the future has been adjusted for propaganda purposes. The earlier and more confident speeches and articles are the more accurate guide. Dr. Funk in a speech on July 25th, 1940, defined its aim: "To guarantee to the Greater German Reich a maximum of economic security, and to the German people a maximum of consumption". Europe would be organised as an economic unit, but not as a single free-trade area; it would aim at self-sufficiency in essentials, but not at complete autarchy, and foreign trade would be organised by a central authority, using the combined trade of Europe as a bargaining weapon; Europe would not possess a common currency, but stable exchange rates would be enforced, while continuous State investment in public works would seek to ensure full employment. It appears that the Nazi policy is to annex industrial regions, including Austria, Sudetenland, Alsace-Lorraine, Upper Silesia and Luxembourg, which have already been formally incorporated in the Reich. It is not yet clear what would happen to the other main industrial areas on the Continent—Belgium, Northern France, the Lyons area, Sweden, Northern Spain and Northern Italy—but it may be hazarded that Belgium, Northern France and Northern Italy would be included in the Reich proper. During the war, where industry exists in occupied territories not formally added to the Reich, Germany is "buying" it up, and where industry is not taken over directly by the Nazis it is run in close co-operation with them by Quisling industrialists. It is interesting to observe the way in which the heavy industry of Lorraine has been distributed. The five blocks—Heckingen, Rombach, Carlshutte, Kneuttingen and Hagen-

dingen—have been placed under the “trusteeship” of five German firms—Stumm, Flick, Rochling, Klockner and Goering Works—and it has been announced that the trustees will have an opportunity of acquiring their trusts when peace returns. There are also many indications that the Nazis would prevent any development of industry in other parts of Europe, and it is probable that considerable de-industrialisation would take place. The following quotation is instructive:

“The new Greater Germany would thus be a very highly industrialised state, with as high a proportion of its occupied population engaged in mining or industry as were so engaged in the old Reich and Austria. Nevertheless, the proportion of its workers engaged in agriculture would not be below that required at current rates of productivity to feed the population at about its current standards. It would contain about 30 per cent of the occupied population of Continental Europe (excluding the U.S.S.R.), 43 per cent of what is officially classed as industrial population—a class which, in some countries, however, includes large numbers of people working in cottage industries. It would contain a far greater proportion of heavy industry, for the territories included produced in 1937 about three-quarters of the Continent’s (excluding the Russian) output of steel. Of the Continent’s agricultural population it would contain only about 19 per cent. The remainder of Europe (still excluding Britain and Russia) would, of course, have quite a different economic structure, even if that structure were not further modified by German pressure. Only some 23 per cent of the occupied population would be in industry (in the widest sense) and mining, while 53 per cent would be in agriculture.”¹

The “New Order” would therefore consist of an enlarged

¹ *Europe Under Hitler* (Royal Institute of International Affairs).

and highly industrialised Reich surrounded by satellite agrarian countries, and a customs barrier would be erected between the new Germany and the rest of the Continent. This structure would realise the aim of Dr. Funk. In Europe industry has hitherto yielded higher returns than agriculture; a near monopoly of industry would give the Reich tremendous bargaining power, and the virtual monopoly of heavy industry, the source of military power, would ensure absolute control by the Nazis. Some indication of the way in which it is planned to exploit the Continent can be gathered from the Continental Oil Corporation, which has been called "a model of a future organisation of an enterprise". Its supervisory council consists of industrial leaders, Party chiefs, ministerial bureaucrats and influential members of the armed forces. A ruthless exploitation of Continental Europe would probably be the basis for an attempt to weld these four sections of the German ruling class into an integrated whole. The resources of a unified Europe would be used to enrich the *Herrenvolk*.

It is not enough, however, to argue that Nazi Germany would extract very unfair terms from the satellite countries. In the very informative publication of the Royal Institute of International Affairs, from which we have previously quoted, it is said:

"These countries would have been better off if they had had no trade with Germany at all, but had consumed the foodstuffs which they sent her."

This may be true in so far as obsolete armaments were exchanged against foodstuffs, but the stark reality of the pre-war European situation was that from the standpoint of the European peasantry any market was better than no market at all. Passionate denunciations of the bestial crimes of Hitlerism in Europe are utterly useless unless they are accompanied by adequate proposals for economic organisation

superior both to that of the pre-war period and to the Nazi "New Order". It must be emphasised that in one of its aspects the "New Order", despite its abominable cruelties, is a distorted expression of the needs of modern Europe. The frontiers of the twenty-odd Nation States in Europe have been outmoded by economic evolution, and today they are an anachronism highly charged with danger. The unification of Europe is a necessary corollary of industrialisation. History, using Hitler as its unconscious agent, has smashed those obsolete national frontiers. To talk of destroying Hitler's "New Order", only to re-create the political and economic anarchy which produced it, is to ignore rather than solve the problem confronting us today. Any realistic policy to end the Nazi "New Order" must aim at eliminating the insecurity and poverty of pre-war Europe. To remove the scourge of Hitlerism, anti-fascists must be prepared resolutely to tackle the problem which history poses—the unification of Europe and its organisation as a planned economy.

CHAPTER III

WHY THIS WAR?

IN CHAPTER I WE have summarised the view which sees the economic antagonisms inherent in capitalism as the decisive, though not the exclusive, cause of modern war. In this chapter we shall examine in some detail the origins of the present war.

In 1939 it was popularly held that the indecision and weakness of Mr. Neville Chamberlain in refusing to make a firm stand against the Nazi power led to war. This superficial view still commands a surprising measure of support. It is reminiscent of the earlier claim that the failure of Sir Edward Grey to make an unequivocal declaration of British intentions in the event of a German invasion of Belgium led to the First World War. Do indiscreet speeches by statesmen, the failure to send cables on time, and similar events, have more than an incidental effect upon the course of history? It is scarcely credible that an affirmative answer is ever given to this question, but the retrospective indignation of historians bears witness to the need to prove the dictum of Clausewitz that "war is a continuation of politics by other means". A realistic explanation of the actions of Chamberlain, Grey and their predecessors must be sought, not in the human frailties of Conservative and Liberal politicians, but in the economic history of Britain and Europe. British mercantile capitalism began to emerge in the fifteenth century, Columbus discovered the New World in 1492, and in 1509 the penetrating genius of Wolsey discovered the key to a successful British foreign policy—the strategy of the Balance of Power in Europe. This relationship of dates is not accidental, because the Nation State, commercial capitalism and foreign policy

(in the real sense of the term) arose together as inter-related parts of the historical process. Since the beginning of the sixteenth century the world politics of Britain have rested on the twin doctrines of the "Balance of Power in Europe" and the "Freedom of the Seas", both essential weapons in the armoury of an island with world ambitions. Statesmen have come and statesmen have gone, but the main aim of British foreign policy has remained unchanged. To prevent the emergence of a formidable Continental rival, Britain in its rise to world power fought the Spanish, the Dutch and the French in successive centuries. In the light of history the strategy discovered by Wolsey would appear to be the *sine qua non* of a successful foreign policy on the part of British capitalism. Having vanquished Spain, Holland and France in turn, relying in no small measure on Central European armies, a new problem arose with the Industrial Revolution and the coming of the railway. The commercial ascendancy of Britain, her coal and iron deposits contiguous with the sea, and her immunity from the havoc wrought in Europe by the Napoleonic Wars, combined to make Britain the workshop of the world. But, by creating new means of land transport, industrialism led to the rise of powerful Nation States in the great land masses. With the coming of the railway it was inevitable that Britain should fight those countries in Europe with the largest iron and coal deposits, just as she had in the past fought those with the longest Atlantic coastlines.

Turning to Germany, it is again necessary to commence our investigation about 400 years ago. For there is some causal connection between the failure of German Imperial might to destroy feudal rulers in the sixteenth century and the modern history of that country. The growth of a strong merchant class as the driving force in a democratic capitalist revolution was fatally retarded by the continued existence of nearly 300 principalities, and the consequent strangling of economic development. Economic geography, however, re-

of the "Balance of Power". With remarkable rapidity Germany outstripped Britain in the production of coal, and iron and steel, the basis of modern industry, the foundation of modern war. The European economic system grouped itself around its natural centre: Germany.

In criticising the economic clauses of the Versailles Treaty Lord Keynes wrote:

"Round Germany as a central support the rest of the European economic system grouped itself; and on the prosperity and enterprise of Germany the prosperity of the rest of the Continent mainly depended. The increasing pace of Germany gave her neighbours an outlet for their products, in exchange for which the enterprise of the German merchant supplied them with their chief requirements at a low price.

"The statistics of the economic interdependence of Germany and her neighbours are overwhelming. Germany was the best customer of Russia, Norway, Holland, Belgium, Switzerland, Italy, and Austria-Hungary; she was the second best customer of Great Britain, Sweden, and Denmark; and the third best customer of France. She was the largest source of supply to Russia, Norway, Sweden, Denmark, Holland, Switzerland, Italy, Austria-Hungary, Rumania, and Bulgaria; and the second largest source of supply to Great Britain, Belgium, and France.

"In our own case we sent more exports to Germany than to any other country in the world except India, and we bought more from her than from any other country in the world except the United States.

"There was no European country except those west of Germany which did not do more than a quarter of their total trade with her; and in the case of Russia, Austria-Hungary, and Holland the proportion was far greater.

"Germany not only furnished these countries with trade,

but, in the case of some of them, supplied a great part of the capital needed for their own development. Of Germany's pre-war investments, amounting in all to about £1,250 million, not far short of £500 million was invested in Russia, Austria-Hungary, Bulgaria, Rumania, and Turkey. And by the system of 'peaceful penetration' she gave these countries not only capital, but, what they need hardly less, organisation. The whole of Europe west of the Rhine thus fell into the German industrial orbit, and its economic life was adjusted accordingly." ¹

In this way Germany was economically dominant in Central Europe, and was threatening French ascendancy in the Balkans. In Europe she was challenging France economically and Britain politically, in that Britain's security interests were at stake. But the German challenge was assuming a world character. In the Far East, Latin America and Africa her pressure was being felt by Britain. The scheme to build a Berlin-Bagdad railway, and the decision to cut the Kiel Canal, were also evidence of the world ambitions of German capitalism. Behind German policy there lay the same motive force as had driven Britain and France into Asia, Africa, the Far East and the American Continent: the inherent inability of the capitalist economic system to solve its domestic problem of glutted markets, except through imperialist expansion. In 1914 the struggle for the supremacy of capital was subjected to the arbitrament of war. The defeat of Germany was due primarily to the superior commercial strength of her enemies. But having won the war, however much the victors wished to act on the old Roman slogan *Vae Victis* and impose a "Carthaginian Peace", their aim was quite incompatible with (a) balance-of-power politics by Britain, and (b) the industrial superiority of Germany.

What had the war done to Europe?

¹ J. M. Keynes, *The Economic Consequences of the Peace*, pp. 14-15.

"The war had so shaken this system as to endanger the life of Europe altogether. A great part of the Continent was sick and dying; its population was greatly in excess of the numbers for which a livelihood was available; its organisation was destroyed, its transport system ruptured, and its food supplies terribly impaired."¹

From the following description by Commander Stephen King Hall² it is possible to grasp the extent of the havoc wrought in Europe by the war.

"The deadliest effects of the Allied blockade of Germany were not so much in the restriction of food supplies as in the curtailment of imported fodder and fertilizers. German agriculture is managed on intensive lines, so a reduction of the nitrogen available for agricultural purposes by over 50 per cent, and of the supply of phosphoric acid by over 70 per cent, had reduced the fertility of the soil at the end of 1918 by 40 per cent. The shortage of fodder became acute, and in 1919 British experts failed to discover one first-grade beast in the Berlin slaughter-houses. Cattle herds had been reduced by 18 per cent and pigs by 60 per cent. The milk yield was seriously reduced and the total output of milk in 1918 had fallen by about 50 per cent. The milk supply in Berlin was down to one-fifth of its normal proportion. In the summer of 1918 the poor in Berlin were reduced to a weekly ration per head which consisted of: 4 lbs. of indifferent bread, $7\frac{1}{2}$ lbs. of potatoes, $\frac{1}{2}$ lb. of meat (when obtainable), $\frac{1}{2}$ lb. of sugar, and minute proportions of fish, fats, cheese and jam. In the terrible 'Turnip Winter' of 1917 the calorific value of the staple ration had fallen to one-third of the normal quantity needed for health. The cumulative effect of these conditions was reflected in the vital statistics of the civilian popu-

¹ J. M. Keynes, *The Economic Consequences of the Peace*, pp. 22-23.

² Commander Stephen King Hall, *Our Own Times*, pp. 71-73.

lation, amongst whom the death-roll was 37 per cent higher than before the war. The birth-rate had fallen by nearly one-half, and in the twelve months ending June 1918, the total deaths exceeded the total births by 885,000. By 1918, three-quarters of a million German civilians were dead who would have been alive but for the blockade. It has been estimated that 80 per cent of the children attending public schools were suffering from rickets, and that the mortality in Prussia from tuberculosis had increased to two-and-a-half times the pre-war figure. The houses of even well-to-do people were infested with vermin owing to lack of soap; new-born babies were wrapped in newspapers for lack of cotton, and the dead were buried in mass graves because there was no wood for coffins. The shortage of raw materials was so acute that the Government was commandeering metal window fastenings, buttons, toy soldiers, and billiard-table cushions (for the rubber).

"In 1919 the food shortage was aggravated by a complete disorganisation of the transport system owing to lack of fuel; raw materials and labour needed to undertake the urgent task of reconditioning the railways after the wear and tear of war. As Norman Angell succinctly put it: 'Famine may be quite as much a problem of spare parts for locomotives, or lubricants or coal as of food'.

"The task of repairing these ravages was one which might have embarrassed a victorious Power with all the resources of the world to draw upon. But it must be remembered that not only was Germany at the mercy of her enemies with regard to permission to purchase and ship the much-needed supplies, but also that she was gravely hampered by difficulties of finance. The pick of the German securities in North and South America and in many neutral countries had been realized during the war, and it has been estimated that of the £1,000 million of German foreign investments existing in 1913 not more than £20

million was available at the end of the war for the provision of credits."

The same author has given some detail to show that "the state of affairs in the areas which had figured on the map as Austro-Hungary was even worse", while the Continental Allied Powers had by no means escaped. Among the Allied countries, France had suffered most, because her chief centres of industry and mining were within the areas occupied by the German armies—75 per cent both of her annual output of coal, zinc and sugar, and of her metallurgical and machinery factories; 80 per cent of the woollen, and 90 per cent of the linen industry. To damage inflicted by "normal" military operations ¹ must be added the results of the German retreat, the deliberate destruction of factories, bridges and railways, the flooding of mines, etc. By the end of the war coal production had fallen by 50 per cent, the area of land under wheat by 25 per cent, while of the 1,820 industrial enterprises in occupied territory, only 835 were active again by 1919. Belgium came off considerably better, and neutrals such as Holland, Norway, Sweden and Denmark, though economically damaged, were in much better shape than most of Europe. The *immediate* economic effects on Britain were comparatively slight, though the long-term effects were considerable, as we shall later show.

Economics, it must be remembered, is not merely a matter of land, mines, factories, machinery and raw materials. Man-power is a vitally important factor of production. In the war, Europe had lost the flower of its manhood, for of the world total of 41,435,000 ² deaths the greater part took place in Europe.

The victorious Allies provided some measure of food relief

¹ As was inevitable in a period when military strength is largely determined by industrial resources, the abnormal has become normal in "scorched-earth" policies.

² This figure was calculated by the Inter-Parliamentary Union in 1931.

to Central and Eastern Europe. Though humanitarian impulses undoubtedly played some part in this, food was then, as it is likely to be again, a powerful political weapon, used for strategic ends, as the following quotation from an authoritative British document will testify:

“Food was practically the only basis on which the governments of the hastily created States could be maintained in power. Half of Europe had hovered on the brink of Bolshevism. If it had not been for the £137 million in relief credits granted to Central and Eastern Europe between 1919 and 1921 . . . Austria and probably several other countries would have gone the way of Russia. . . . Two-and-a-half years after the Armistice the back of Bolshevism in Central Europe had been broken largely by relief credits. The expenditure of £137 million was probably one of the best international investments from a financial and political point of view ever recorded in history.”¹

This quotation suggests a pertinent question: How far did the newly-created States and Governments express the principle of self-determination or anything at all except the strategic concepts of the victors?

The European economy, devastated by war, was destined also to be strangled by “peace”. The Treaty of Versailles is itself somewhat longer than this short book. All we can here attempt is to summarise its economic clauses, and to interpret their consequences in so far as they have a bearing on the economic anarchy of pre-war Europe. The treaty expressed the aims of the victorious Powers, which in turn were a reflection of the dilemma of capitalism. Too often the treaty has been discussed in terms of an abstract morality, whereas an examination of its economic basis and consequences is a

¹ Sir William Goode, formerly Director of Food Relief in Central Europe, referring to his official report in 1920, in *The Times*, October 14th, 1925.

more reliable guide to action. Under the Reparations Sections of the treaty, Germany was to:

(a) Deliver coal to Allied countries annually for ten years—8,000,000 tons to Belgium, 7,000,000 tons to France and 6,000,000 tons to Italy.

(b) Deliver livestock to Allied countries—30,000 horses, 100,000 sheep, 90,000 cows, etc., to France, 10,000 horses, 50,000 cows, etc., to Belgium.

(c) Surrender her merchant ships over 1,600 tons to the Allies, and to build new ships to Allied orders.

(d) Compensate Allied citizens for war damage, and to pay reparations payments, to be fixed by an Allied Commission, £1,000,000,000 to be paid in the period 1919-21.

In addition, Germany surrendered her colonies, while in this and subsidiary treaties the map of Europe was re-drawn, allegedly on the basis of national aspirations to self-determination, but more decisively as a part of Allied strategy for permanent hegemony on the Continent.

There were left in Europe national minorities totalling some 40 million people of fifty nations in twenty States: in Poland 12 million Germans, Ukrainians, White Russians, etc., out of 30 millions; in Rumania 8 million Magyars, Germans, Bessarabians, etc., out of 70 millions; in Yugoslavia 8½ million Croats, Montenegrins out of 13 millions; in Czechoslovakia 8 million Slovaks, Germans, etc., out of 14 millions.¹ In the light of these figures, it is scarcely surprising that the report of the Secretary-General of the League of Nations stated that in 1931-2 alone 101 petitions were received from minorities, of which 21 were declared non-receivable and 80 remitted to committees of three; 49 committees had been convoked, and had held 58 meetings, in

¹ Ellen Wilkinson and E. Conze, *Why War?*

addition to 90 meetings of 45 committees to continue examinations received during a previous year.

Whatever case can or cannot be made out for the post-war map of Europe on other grounds, it flatly contradicted the stark realities of economic facts. The Ruhr and Lorraine together form the industrial centre of the European economy. These districts are economically interdependent because the coal of the former and the iron of the latter need to be used together, and they are linked by both railways and waterways. (This fact should be specially noted, because any realistic answer to Hitler's "New Order" must face it squarely, and even today the general practice is to shy away from it.) The misnamed Peace shattered the semblance of economic balance in Europe which had developed along with capitalism. The shifting of the Franco-German frontier eastwards certainly reunited the Lorraine ironfield, but it intensified the conflict between the "political myth" of national frontiers and the "economic reality" of the modern world by erecting a barrier between the ironfield and the coal of the Ruhr without which Lorraine iron is relatively useless—the Ruhr is the only large area where there is a huge supply of coal with the carbon, gas and ash content necessary for high-grade coke. Prior to the war, the eastern half of the ironfield had drawn its supplies of fuel from the Ruhr. Moreover, it was from Lorraine, the Saar and Luxembourg that the iron works of Westphalia, as well as the shipbuilding yards and engineering factories throughout Germany, had obtained the bulk of their iron and steel supplies. To intensify the problem of heavy industry, the creation of the new Polish State and the consequent division of Upper Silesia cut off the blast-furnaces of the new Polish territory from the hard coke for which they had been designed, while a substantial section of German industry in the east was separated from its former coal supply. Moreover, the links in the intricate system of coal, lead and zinc mines, furnaces and factories, which had developed over

the previous fifty years, were broken or damaged.¹ (The evil consequences of this set-up were in some measure mitigated by the Polish-German Treaty of 1922, which allowed an intervening period for adaptation before separation was finally completed.) The settlement in the east also segregated the engineering plants of Riga and Tallin and the dairy-farms of this area from the industrial region of North-west Russia, while the cotton industry of Narva and Lodz lost its Russian markets.

Whatever indictments of the Austro-Hungarian Empire may be sustained, and they are many, it did possess some of the attributes of an economic entity. It was a large free-trade area, with a common railway system, a great water-way in the Danube, an outlet to the Adriatic, and there was some balance between industry and agriculture. By the Peace Treaties it was split up into fragments, each with its own customs barriers, while Austria, a Metropolis without an Empire, was forbidden to link up with Germany. (Here it may be noted that the collapse of the Credit-Anstalt Bank on May 11th, 1931, which was the "Sarajevo" of the world economic crisis, was due in part to the economic position of Vienna.) And whatever national aspirations the post-war settlement may have satisfied and/or frustrated, and they are considerable, it singularly failed to solve, but, on the contrary, aggravated old and created new economic problems. A distinguished figure in the Austrian Labour Movement has written:

"We must realise that the little country of 6,500,000 inhabitants, today called Austria, is a mere fragment of the once great Hapsburg Empire of 52,000,000 inhabitants; that the economic life of that expanse of territory was rooted in an economic entity which included Czechoslovakia,

¹ For a thorough discussion of this see *The International Experiment of Upper Silesia*, by Georges Kaeckenbach.

large parts of Poland, the whole of Hungary, parts of Rumania, the whole of Croatia, Bosnia, Herzegovina, Dalmatia, and the northern fringe of Italy from Fiume beyond Trieste to Trient and the range of mountains; that by cutting away the roots of Austria's economy, by depriving Austria's trade and industry of eight-tenths of its markets within the Hapsburg Empire, her economic life was bound to wither. The absurdity of Austria's economic position cannot be better illustrated than by the single fact that not less than one-third of her total population dwelt in Vienna alone, which had grown in the course of centuries to this size as the capital of a big empire. The sheer impossibility of Austria's living as an independent economic entity is not merely due to her size. There are even smaller states than Austria—Switzerland, Holland, Denmark, Belgium—which prospered fairly well. It is due to her highly developed economic fabric. Austria can live and prosper only when she is incorporated in a large economic community.”¹

In this way it appeared that the German competitor, stripped of its iron-ore deposits, the greater part of its powerful blast-furnaces, part of its coal, its system of transport and communication (mercantile marine, submarine cables, rolling stock) crippled, its colonies and overseas capital confiscated, deprived of its working capital by reparations, and with its chief ally economically splintered, was finally vanquished.

Each of the new States proceeded to set up customs barriers and armies, allegedly “the supreme attributes of sovereignty”. In the circumstances of exhaustion and disintegration, currencies were bound to be unstable in the extreme.

In truth, the phrase of Burke applies to the “peace-

¹ Julius Braunthal, *Need Germany Survive?*, pp. 220-1.

makers", for they were indeed the "architects of ruin". Just as it has been the fashion to argue about the Peace Treaties mainly in moral categories—"good" and "bad", "just" and "unjust", "generous" and "vindictive"—so it has been the predominant custom to label their authors "wise" or "unwise". In the manner that we have warned against a primarily moral approach to Versailles as a guide to action, so it is a part of our general thesis that imperialism and war are not policies *chosen* by the statesmen of capitalism. Choice, we reiterate, implies the existence of alternatives, and in an important fundamental sense no such alternatives exist for capitalism, unless suicide may be so classified. Similarly, the Peace Treaties did little more than express the nature of the system they reflected.

Versailles did not "proceed according to plan"; because its restrictive basis collided with the essential unity of the economic world. "Make Germany Pay" was a good slogan to rally hate-ridden peoples, but *how* to make the vanquished redress the grievance was quite another matter. Only by permitting Germany to re-enter the markets of the world was it possible for Germany to pay. The Allies found themselves caught up in the vicious circle of the system: war had destroyed a competitor, but the conditions of victory meant re-creating the competitor. The only section of the Allied rulers with a clear-cut plan of campaign was the French *Comité des Forges*. That campaign was aimed to culminate in a new, plundering imperialism—in the heart of Europe itself. Using "Make Germany Pay" as the battle-cry to rally the substantial rentier class of France, and simultaneously depriving Germany of the means of payment, they gladly used indignation against the "defaulting Boche" to provide the mass basis necessary for a march into the Ruhr.

But French heavy industry could only realise its dream of uniting under its control the natural industrial centre of Europe—Lorraine iron and Ruhr coal—by threatening its

allies. By 1922 French steel exports stood at 1.3 million tons, as against 0.4 million in 1913. She was beginning to overtake Britain.

Had Britain saved Europe from German hegemony only to create an all-powerful France? And what of the U.S.A., which was the creditor of the world? The conflicts of capitalism exist among victorious allies as well as between military opponents. Britain and the U.S.A. stood between France and the dream of the *Comité des Forges*. The Dawes Plan provided Germany and Europe with a brief period of "dollar prosperity", with the working capital essential for a resuscitation of industry. But the late 'twenties were simply the calm before the storm, a precarious equilibrium established by the dominant position of the still-expanding capitalism of the U.S.A., which—proving once again the economic interdependence of the world—lent its creditors money in order to pay their war debts, and the position even reached the stage when new loans were practically the only source of interest payment! The collapse of the great American boom completed the work of the "architects of ruin". Thirty million workers were thrown out of employment; wholesale commodity prices fell by a third, raw material prices by something like 60 per cent, the total value of world trade shrank by two-thirds, stocks accumulated, and an "economic blizzard", in Mr. Churchill's phrase, had struck the world. Economic nationalism—tariffs, currency wars, quotas, imperial preferences—set in, hitting Germany and the already impoverished peasant States of Eastern and South-eastern Europe with especial force. Capitalism staggered to "recovery" mainly by the route of employing its heavy industries to produce arms and yet more arms, by the road to ruin, the highway to barbarism.

In view of the present line-up of the Powers, it is interesting to recall, in concluding this section, that in the post-1918 period Soviet strategy, cemented in the Treaty of

Rapallo, was to encourage Germany as a barrier between herself and the Western capitalisms who had sent interventionist armies against her, while Britain built up Germany first to offset French influence in Europe, and later as a defence against Bolshevik Russia.

In declaring war in September 1939, Britain was simply continuing the foreign policy which had led to the world power of British capital. The essential nature of a "balance" policy is apparent indecision—retreat and compromise today turning into its opposite, a firm stand and war, tomorrow. Britain could not for long maintain her world-wide Empire in the face of a Europe united under the hegemony of a great Continental Power. We repeat: it was as inevitable that Britain should fight Germany to a finish in the twentieth century of industrial land masses as that she should fight Spain, Holland and France in previous centuries.

THE NEW WORLD AND EUROPEAN WAR

The war began as a battle for European hegemony, with Germany and Britain as the major combatants, but it developed with an inexorable logic into a world struggle in which America was destined to play a decisive rôle. That the democratic principle and the unity of the English-speaking peoples were a powerful impulse in the headlong rush of the U.S.A. to war cannot be doubted, but lying behind the ideological factor there is, as usual, an economic urge. So far as the United States is concerned, its economic interest in the present war is to be found mainly in the American continent. It is necessary here to trace in some detail the struggle between the Great Powers for the wealth of Latin America.

Prior to 1914, despite some competition from France and Germany, British capital was dominant in South America. All over the continent the strategic positions were in the hands of Britain—railways, lines of maritime and river navi-

gation, banks and insurance companies. Britain had supplied the greater part of the public loans of the South American countries, and possessed interests in important industries, including tin in Bolivia, petroleum in Peru, nitrate in Chile, coffee in Brazil, and cattle-raising and slaughtering, lumbering, water-power, telephones and trolley-cars in Argentina. Following the Spanish-American War of 1898, Wall Street entered the arena and began to penetrate Mexico and Central America. It was not until the First World War, however, that the U.S.A. began to challenge British supremacy in South America. The preoccupation of the European Powers with the war enabled the U.S.A. to capture important markets, and in the years following the war she acquired many of the principal resources of South America. These included petroleum concessions in Venezuela, Peru and Bolivia, control of the Chilean nitrate industry, concessions in rubber exploitation in Brazil, tanneries in Paraguay, coffee plantations in Colombia, copper mines in Chile and Peru, interests in the meat industry in the Argentine and Uruguay. Considerable success also attended the United States' challenge to British control of transport, communications and banking.

New York replaced London as the financial centre in which the greater part of the new South American loans were raised. During the period 1919-30 U.S. capital in South America increased by 1,200 per cent, while British capital remained stationary. One after another, the South American countries were yielding to the drive of American capital. Wall Street's influence reached its summit in the late 'twenties, when General Uriburu in Argentina and Getulio Vargas in Brazil overthrew Governments which were largely tied to British capital. A glance at the leading articles of the *Times* and the *Telegraph* reveals how acute was the conflict at this time between British Imperialism and its American rival.

The British counter-attack met with partial success.

Argentina is the most important South American market, and in 1932 Uriburu, who had been backed by U.S. capital (particularly Standard Oil), was overthrown by General Justo. Through Justo's Government, Britain regained a predominant influence in this most important country. The Ottawa Agreement gave Britain a bargaining weapon, and in 1933 the Roca-Runciman Trade Treaty was signed. In return for the maintenance of the British market for her frozen meat, Argentina yielded important concessions to Britain. Of the £450 millions of British capital in Argentina, a substantial part is invested in railways and tramways. A transport co-ordination law eliminated competition from motor transport, thus favouring the British investor. Moreover, a manipulation of the exchange rates favoured British exports, whilst assuring the punctual payment of interest on British capital. These measures struck hard at the U.S.A. Argentina also took up a hostile attitude towards Britain's rival at the Pan-American Conference. According to the bulletin of the Pan-American Union, U.S.A. capital in Argentina fell from 700 million dollars in 1921 to 380 million in 1938.

In Chile, British Imperialism regained some of its influence when President Alessandri came to power in 1932. In the same year the pro-British Sao Paulo coffee oligarchy tried to overthrow the Vargas regime in Brazil, but they were defeated by the pro-U.S.A. Government. The most violent clash came in the Chaco territory, which was disputed by Bolivia and Paraguay. American petroleum companies needed an outlet in East Bolivia. Under their pressure, Bolivia tried to conquer the Chaco with the object of extending its territory to the Paraguay river and obtaining a port with an outlet to the Atlantic. Prodded on by Anglo-Argentine interests, Paraguay opposed these aims, and as a result of a successful war annexed the Chaco territory herself. Thus the peoples of Bolivia and Paraguay who were called upon to defend their country were in considerable measure fighting

a battle between Wall Street and the City of London. This background is vital to an understanding of the rôle of the U.S.A. in the modern world and the present war, because it is too often assumed that the absence of a large political empire excludes the U.S.A. from the imperialist struggle, whereas there is some truth in the assertion that Latin America is an economic colony of U.S.A. capital.

In the early 'thirties another Power appeared in the South American arena—Japan. She flooded the market with cheap commodities, and was able to obtain concessions in Peru and Brazil. But hardly had Britain and America awakened to the new threat when another and more formidable rival appeared on the scene—Hitler Germany. That was in 1934. The first decisive event in the great German offensive was a commercial treaty with Brazil in 1935 under which Germany bought products, especially cotton, paid for in "compensated marks", which could be used only to acquire commodities in Germany. As a result of this treaty, Germany displaced the U.S.A. as the leading exporter to Brazil in 1936 and 1937. By means of trade agreements based on barter or the "compensated mark", Germany made headway in other South American countries, and in 1936 she ousted the U.S.A. from first place among the exporters to Chile. In many ways this German economic offensive is the most remarkable that the world has seen. It was part of the Nazi subordination of the entire economy of Germany to the needs of re-armament; it was an important method of gaining access, at whatever cost, to supplies of essential war materials. In return for German goods the Nazis obtained vast quantities of South American raw materials, some of which were re-sold in Europe to obtain the foreign currency—British pounds, French francs, etc.—to purchase essential war materials from other countries. Nazi Germany, however, was not content with commercial penetration. She, too, organised on a political basis, but in a more thorough way than her rivals. The

organisation of German residents into sections of the Nazi Party, large-scale propaganda and the financing of political parties (such as the *Integralists* in Brazil and the *Nationalists* in Argentina) were part of the general plan to transform Latin America into the economic, and perhaps political, colony of German imperialism.¹ The Vargas *coup d'état* in Brazil in 1937 revealed the growth of Nazi influence, and knowing that he could rely on the support of the *Integralists*, Vargas proclaimed "totalitarian government".² German sympathies were also evident in President Busch's struggle against Anglo-American mining and petroleum interests in Bolivia.

This challenge to the ascendancy of U.S.A. capital in Latin America was much the same as if political aggression had taken place against a part of the British Colonial Empire, and it demanded action. When President Roosevelt first took office he proclaimed the "good-neighbour" policy which was supposed to herald the end of the "big-stick" policy inaugurated by Theodore Roosevelt at the beginning of the century. Marines were withdrawn from Nicaragua and Haiti, and a guarantee was given that the U.S.A. would not intervene in Cuba. Actually the "good-neighbour" declaration was not so much a new policy as a new tactic to meet a new situation. The U.S.A. proceeded to put forward the idea of inter-American collaboration for the purpose of protecting the Continent from the totalitarian threat. This would, of course, have the effect of securing South America as an almost exclusive sphere of influence for U.S.A. capital. In order to combat German barter, bilateral treaties were signed which granted concessions to the U.S.A. at the expense of her rivals. Traffic between the American countries was increased by means of both maritime and air lines. Special credits were granted by Wall Street to Latin American

¹ See the American monthly, *The Fourth International*, December 1940.

² Subsequently Vargas turned against the Nazis and veered towards the U.S.A.

countries, while pressure was put on several Governments to obtain preferential treatment at the expense of Germany.

This was the setting in which the Second World War began. The U.S.A. was able immediately to strengthen its position. The British blockade removed German competition; under the stress of war, Britain was hardly in a position to maintain, let alone increase, its trade with South America; and the South American countries, finding European markets closed to them, became more dependent upon the U.S.A. During the period September 1939 to June 1940, "Cash and Carry" were the terms upon which supplies were sent to Britain from the United States—not only did Britain have to pay spot cash, but also to provide transport. In 1940 "Cash and Carry" was transformed, as if by the wave of a magician's wand, into "Lease and Lend". What lay behind this drastic change? The key may be found in a significant utterance by Wendell Willkie, who was the nominee of one of the great parties of the U.S.A. in the last Presidential election. Giving evidence before the Senate Foreign Relations Department on February 11th, 1941, he said: "In these circumstances (a Nazi victory) Germany would probably make a drive, economic or military, in Latin America". A publication¹ of the Royal Institute of International Affairs underlines this view:

"Moreover, though the boasts of Darré about causing the United States to have thirty-five or forty million unemployed by German competition are obvious nonsense, it is clear that the Reich controlling all Europe and Africa would be in a position to cut the United States out of her present export markets for manufactures by a policy of dumping."

Hitler's conquest of Europe and the consequent isolation of Britain contained within it the threat, not merely of a re-

¹ *Europe Under Hitler*, p. 20.

newal of the pre-1939 competition, but of its intensification by a Europe forcibly united, economically and politically, under the German power. Britain's war in Europe thus became the intimate concern of the United States, expressed in the allocation of supplies under Lease-Lend.

THE FAR EAST

In the Far East the war is more obviously an inter-imperialist conflict, even though China fights a progressive national war in alliance with the older Empires of Britain, America and Holland, against whom the newer Japanese imperialists fight.

The rise of Japan as a formidable Power in the East dates from the revolution of 1871,¹ when the *Daimios*, the feudal princes, voluntarily surrendered feudal rights in return for important positions in the new regime and State bonds and railway shares. The *Samurai*, the warrior class, likewise gave up ancient privileges and were incorporated into the new regime. This revolution created a centralised Government, and military service became a duty rather than a privilege, thus facilitating the growth of a modern army. And the common people were "freed" from feudal serfdom to become tenant farmers or industrial workers. From this time on, the Japanese consciously modelled themselves on the Western Powers, and Britain in particular. Indeed, it is not too much to say that the new powers in Japan sought to make their country the Britain of the East, the similarity of geographical position in relation to a large continent commending itself to men whose national traditions contained a large dose of mythology.

The industrial revolution in Japan took place with great speed. It was not until 1872 that the first railway was built, but by 1914 the total length of railway track was 6,000 miles. Prior to the revolution there was a law prohibiting the build-

¹ T. Ashcroft, *An Outline of Modern Imperialism*.

ing of ocean-going vessels, but by 1914 Japan possessed 2,072 steamers sailing the oceans of the world. In 1880 there was no cotton industry, but by 1914 Japan possessed 2½ million spindles and 117,000 men and women were employed in the industry. By 1913 over 200,000 miners were producing £13 million of coal, iron and copper, while Japan's foreign trade rose from £5 million in 1877 to £136 million in 1913.

Towards the end of the century the battle for China (the largest non-European State that still retained its independence) was in full swing, competition being apparent between Great Britain, with interests in Tibet and South China, France in Yunnan, Russia in Northern Manchuria, Mongolia and Chinese Turkestan, and Germany in Shantung. Japan, a young capitalist Power experiencing a shortage of coal and iron, and rice and markets, joined in the fray, and in 1894 Formosa and Port Arthur were annexed. Concluding an alliance with Britain against Russia, and later with France and the U.S.A., Japan by 1908 was in the front rank of military Powers.

The Great War provided her with a real opportunity to penetrate China when the European Powers were engaged elsewhere. In 1914 she occupied Germany's foothold in China, Kiau Chow and Manchuria, saying that they were to be returned at the end of the war. In 1915 came Japan's twenty-one demands on China, which were aimed at making China an exclusive sphere of influence for her neighbour, and in May China yielded to her demands in Shantung, Southern Manchuria and Eastern Inner Mongolia. Loans at 8 per cent interest were forced upon China. The U.S.A. protested strongly against this treaty, and U.S.A.-Japanese friction developed. The real cause of conflict, as distinct from popular cries about immigration, etc., centred upon the opening up of China, with its large mineral resources, etc. For the American annexation of the Philippines and Guam were "stepping-stones to Asia".

Following the Great War, Japanese influence in China increased, and between 1913 and 1936 her investments increased from £40 million to £190 million. On the outbreak of the present war, four Powers had about £1,500 million of capital invested in Asia: Britain £860 million, U.S.A. £170 million, Holland £250 million, Japan £200 million. In trade, too, the other Powers, and Britain in particular, were feeling Japanese competition, while the United States, as we have shown, was feeling Japanese pressure in Latin America. In truth, the Far Eastern conflict, so far as the Great Powers are concerned, is a sordid struggle for capital and trade, for rubber, oil and tin, together with the tremendous undeveloped resources of China. China fights a war to prevent imperial enslavement, but in the process is forced to make concessions to her present allies, who in the years before the war provided her enemy with the means of making war.

THE SOVIET UNION

The Soviet Union, having replaced the profit motive of capitalism with Socialist economic planning and State property, does not fit in to our general scheme. She hoped, by obtaining the support of the common people of the world, by playing off the great capitalist Powers one against the other, and by strategic military actions of a limited character, to avoid involvement in the war which had gripped the capitalist world. She would not have fought at all but for the Nazi attack upon her. This attack arose first from the Nazi fear that in the event of a long, exhausting war with the West, Russia would gain the permanent results of temporary Nazi victories, and second from the Nazi need for oil, grain and minerals, when it became apparent that she had to fight the U.S.A. as well as Britain. The lesson to be drawn from this is that there can be no peace, even for Socialistic countries, in a world which is predominantly capitalist.

The evidence we have adduced shows clearly that the present war is a result of the economic antagonisms generated by a system of resting on private property and private profit. It shows, moreover, that, if left to itself, capitalist peace, reflecting the rivalries of capitalism, sows the seeds of future conflict. To prevent war, it is necessary to end the acquisitive society in which capital, in the absence of effective demand at home, seeks investment abroad, and in which terroristic dictatorship is the politics of frustrated imperialism.

CHAPTER IV

THE ECONOMIC CONSEQUENCES OF THE WAR

WE HAVE TRACED in some detail the origins of the present war. One cannot, however, hope to suggest a policy to end the social chaos from which both Hitler and war came unless the economic consequences of the war are taken into account. The post-war situation may still be veiled in the fog of the future, but it is at least possible on the evidence available to indicate sailing—or more aptly, drifting—directions. Four centuries of British world power has produced an unshakable national confidence, which has permeated the Labour movement. It is very difficult to get a realistic discussion of the post-war economic problems of Britain, because it is easier to ignore unpleasant facts than to face them. Towards the end of 1940, the present writer contributed two articles to a Socialist monthly, arguing that “Britain’s position as a tribute-drawing Metropolis is almost certainly being undermined by the conduct of the war, while the Dominions gain that economic independence which spells ruin to what is left of Britain’s export trade”, and concluded that this “decisive economic fact concerning the future of the British Empire” made unrealistically optimistic Professor Laski’s¹ plea for the inauguration of a series of great social reforms by the Conservative-Labour coalition. Of the truth of our statement even Socialists were as sceptical then, after a year of war, as was an International Summer School on the Continent in the summer of 1939. The British Left in general appears to believe in the *status quo ante bellum*, taking for granted a continuation of the world power of British capital, and on that assumption arguing for social security within the present social system, *à la* Beveridge. This makes it desir-

¹ H. J. Laski, *Where are We Going from Here?*

amounts in the rest of the world. In some measure, French investments were made for security reasons; particularly so were the huge loans to Russia, which were used to develop Russia's railways and mining and armament industries, as well as to purchase munitions from France. The challenge from Germany, which was growing rapidly, largely dictated this investment policy. By 1913 Germany held £1,250 million of foreign investments. Approximately half of that total was in Europe, leading to German domination in Central Europe and a threat to France in the Balkans. In South America and China, Britain was feeling German pressure, signified by £60 million invested in Argentina, £40 million in Chile and £50 million in China.

Britain, France and Germany were the leading Powers in the world capital market in 1913, at which date America was still a debtor, and Japan had scarcely begun to export capital. Britain dominant in the world, France in Europe, and Germany challenging both—that was the setting when the struggle for the supremacy of capital was submitted to the decision of war in 1914-18.

THE IMPACT OF THE FIRST WORLD WAR

In the modern age wars are fought with machines as well as armies, and they are in a large measure an industrial battle to equip and maintain the armies in the field. Inevitably, therefore, a life-and-death struggle between the Great Powers had an important influence on their economies.

Ignoring internal methods of raising funds, let us examine British war finance during the First World War. For the year 1913, Britain received some £94 million from shipping services, some £210 million as the yield on foreign investments, and some £35 million from banking and insurance services. When an excess of imports totalling £134 million is deducted, Britain had a surplus of about £200 million available for foreign investment. This meant that in a war

economy she could, without loss of imports, cut her exports considerably, and direct the resources thus freed to war needs. The British Government could also command about £175 million in gold. Despite these assets, Britain, prior to the American entry into the war in 1917, found it necessary to sell approaching £1,000 million of securities held by her nationals in the U.S.A., or to raise loans upon them.¹ Germany was stripped of her overseas capital and became a debtor, while France lost heavily in Central and Eastern Europe, as well as in Russia.

After 1918 Britain faced an entirely new economic position. During the war she had lost export markets to the U.S.A. in the American continent, and to Japan in the Far East, while reparations payments still further damaged her foreign trade. Britain had become the workshop of the world by specialising in basic commodities, and the growing use of luxury articles made her particularly vulnerable to the dislocation of international trade caused by the war. Moreover, she was paying the price of being the pioneer, having a vested interest in the old, and consequently lagging behind her rivals in industrial technology. Britain's industrial structure was not conducive to the changes necessary to face the future. Small firms and extreme specialisation, linked with a century of success, meant inadequate resources for, and lack of inclination to undertake, the drastic innovations and experiments which this situation required.

Moreover, largely owing to the shrinkage of her foreign trade, the basic industries were confronted with excess capacity, and therefore high fixed costs, while competition for the shrunken market tended to depress prices to an unprofitable level. Competition was failing to fulfil its traditional function of maintaining a profitable level of produc-

¹ In addition, during the war she made loans to her Continental Allies, and in turn borrowed from the U.S.A., ending up by being a debtor to the extent of £920 million, and a creditor to the extent of £2,200 million, so far as war debts were concerned.

tion and prices, and eliminating inefficient and redundant firms.

When Britain's return to the gold standard—an attempt to reduce costs by drastic deflation—singularly failed, the basic industries—coal, iron and steel, shipbuilding, etc.—became the subject of Government schemes. In retrospect, it can be asserted with confidence that the Government, by delegating authority to groups of producers, did little more than encourage a generalisation of capitalist monopoly. By raising prices and restricting production, such schemes may—at least in the short run—secure a better return upon capital, but judged either as a means of re-establishing British ascendancy in the world market, or as a method of providing the people with a maximum of goods at minimum prices, they were—and will be—totally inadequate.

Despite these handicaps, Britain renewed her capital export during the nineteen-twenties, but was easily outstripped by the U.S.A. Between 1923 and 1932 the U.S.A. exported approximately 4,000 million dollars, and Britain 2,200 million dollars,¹ Germany, Latin America, China and the British Empire being the principal fields of investment. This entire period, however, lacked a satisfactory basis for capital export, vital to a smooth functioning of capitalism. The essential prerequisite for a long-term policy of foreign investment is that it reflects a genuine trading relationship between the countries involved, but in the period under review tariff walls prevented the U.S.A. from receiving imports in sufficient quantities for her debtors to pay interest. For a time this position was obscured by the export of gold and the granting of new loans. Germany was taking great amounts of capital, and in so far as these were used to meet reparations payments and to finance public works the conditions for collapse were being created.

¹ *The Balance of Payments, 1931-32* (the League of Nations). These are *net* figures: capital exported minus capital imported.

By about 1930 the steep fall in agricultural and raw material prices, and the consequent inability of the primary producers to meet interest charges, led to a freezing of capital in Central and South-eastern Europe, and in Latin America. This, combined with difficulties in the British Dominions, tended to bring the export of capital to a standstill. So far as Britain is concerned, during the period from 1932 to 1936 debt repayments exceeded new loans by £76 million,¹ while a comparison of the period 1911-13 with 1934-36 shows that of new capital issues in London (excluding British government borrowings), foreign loans had fallen from 47 per cent to 0.5 per cent of the total, and Empire loans from 35 per cent to 15 per cent, while domestic issues absorbed 84.5 per cent as against 18 per cent.²

What had been happening? The British Dominions were no longer purely producers of raw materials, as is shown by the following figures: "Between 1912 and 1931, Australian manufactures rose in value from £39 million to £106 million, or from one-fifth to over one-third of total production; South African manufactures rose from £17 million in 1911 to £112 million in 1930; Canada from 1,166 million dollars gross value in 1911 to 2,698 million dollars in 1932". Meanwhile, British exports of manufactures fell from £411 million in 1913 to £280 million in 1932.³ In addition, competition from the United States of America was being felt by Britain even within her Dominions and colonies. Between 1913 and 1929 the proportion of the imports of the Dominions and Colonies from the U.S.A. rose from 22 to 26 per cent, while those from Britain fell from 44 to 34 per cent.⁴ This was exaggerated by the preponderance of the U.S.A. in Canada, but in Australia during the period 1913-29 imports from the

¹ *Economist*, October 30th, 1937.

² *Ibid.*, September 11th, 1937.

³ R. P. Dutt, *World Politics 1918-36*, quoting figures from *Westminster Bank Monthly Review*, December 1934.

⁴ Figures quoted by R. P. Dutt in *World Politics 1918-36*.

U.S.A. increased from 14 to 25 per cent, while British fell from 52 to 40 per cent; in South Africa imports from the U.S.A. rose from 9 to 18 per cent, while British dropped from 57 to 44 per cent; in India imports from the U.S.A. rose from 3 to 9 per cent, while British dropped from 65 to 43 per cent. The Ottawa agreement, with its series of imperial preferences, was designed to stay this process, and with the help of the great depression in the U.S.A., it met with a measure of success. In Latin America the U.S.A. made even greater inroads into British exports. In India and the Far East generally Britain was meeting competition from Japan.

On the eve of the Second World War Britain's overseas capital stood at about the same figure as in 1913—£3,700 million—but if price changes are taken into account its value was less. Its distribution had also changed. Since 1913 the proportion in the Dominions and colonies had risen from 48 to 53 per cent. The foreign investments of the U.S.A. in 1936 totalled £2,600 million, nearly two-thirds of it in the American Continent, exceeding that of Britain not only in many of the Latin American countries, but in Canada as well. The remainder of United States capital was distributed as follows: 7 per cent in the Far East, rivalling Britain; 25 per cent in Europe, outstripping Britain; and she had made her appearance in Australia with £70 million.

In the late 'thirties Britain still retained her position as commercial Power No. 1, but significant changes had taken place. Despite the rise in prices, British exports had fallen from £525 million in 1913 to £441 million in 1936, while imports had risen from £659 million to £789 million. Moreover, the direction and nature of her trade were changing, as is shown by the Tables on p. 59.

These figures show clearly that as the dependence of the Dominions on Britain was becoming less, owing to their industrialisation (and to the growing power of the U.S.A.), Britain's dependence on them was increasing. The export of

STRUCTURE OF GREAT BRITAIN'S OVERSEAS TRADE

Table A

Showing the Division of Britain's Overseas Trade between the British Empire (including Dominions) and Foreign Countries

| | 1913. | | 1924. | | 1936. | |
|---------------|---------|---------|---------|---------|---------|---------|
| | Imports | Exports | Imports | Exports | Imports | Exports |
| | %. | %. | %. | %. | %. | %. |
| British . . . | 24·8 | 32·9 | 30·22 | 41·67 | 39·18 | 49·22 |
| Foreign . . . | 75·2 | 67·1 | 69·78 | 58·33 | 60·82 | 50·78 |

Table B

*Showing the Nature and Direction of Britain's Overseas Trade
(in £ million)*

Principal Exports

| 1913. | | 1929. | | 1936. | |
|------------------|----|------------------|----|------------------|----|
| Cotton Pieces . | 84 | Cotton Pieces . | 99 | Machinery . | 41 |
| Iron and Steel . | 52 | Iron and Steel . | 66 | Cotton Pieces . | 39 |
| Coal . | 51 | Machinery . | 55 | Iron and Steel . | 33 |
| Machinery . | 50 | Coal . | 49 | Coal . | 29 |
| Woollens . | 21 | Woollens . | 31 | Woollens . | 17 |
| Ships . | 11 | Ships . | 16 | Motors . | 17 |

Largest Customers.

| 1913. | | 1929. | | 1936. | |
|-----------------|----|---------------------|----|---------------------|----|
| India . . . | 70 | India . . . | 78 | South Africa . | 37 |
| Germany . . . | 41 | Australia . . . | 54 | India . . . | 34 |
| Australia . . . | 34 | U.S.A. . . . | 46 | Australia . . . | 32 |
| U.S.A. . . . | 29 | Germany . . . | 37 | U.S.A. . . . | 28 |
| France . . . | 29 | Free State (Eire) . | 36 | Canada . . . | 23 |
| Canada . . . | 23 | Canada . . . | 35 | Free State (Eire) . | 21 |

Principal Sources.

| 1913. | | 1929. | | 1936. | |
|-----------------|-----|-----------------|-----|-----------------|----|
| U.S.A. . . . | 142 | U.S.A. . . . | 196 | U.S.A. . . . | 93 |
| Germany . . . | 80 | Argentine . . . | 82 | Canada . . . | 75 |
| India . . . | 48 | Germany . . . | 69 | Australia . . . | 61 |
| France . . . | 46 | India . . . | 62 | India . . . | 51 |
| Argentine . . . | 40 | France . . . | 57 | Argentine . . . | 45 |
| Russia . . . | 40 | Denmark . . . | 56 | New Zealand . . | 44 |

capital inevitably leads to a position where the investing country is faced with industrial development in its former capital market. The war of 1914-18 had quickened this pro-

cess, because the Dominions had to rely on their own resources to a greater extent. Contrasting 1913 with 1938, the inescapable conclusion is, therefore, that Britain's position, both in capital investment and trade, had changed in the direction of her becoming an imperial rather than a world Power. Her economic structure had been assaulted by three forces: (1) the decline in world trade; (2) the increasing independence of the Dominions and India; (3) the rising power of the U.S.A. But so long as the ties of loan with the Dominions remained, her trade, though shrinking, went in the same direction.

ECONOMIC CONSEQUENCES OF THE SECOND WORLD WAR

It is useful to commence this part of our enquiry by comparing Britain's position in 1939 with that of 1914.¹ Firstly, instead of a favourable trade balance of about £200 million per year, she faced a deficit of about £50 million. In this respect she started by being £250 million a year worse off. Secondly, her gold position was relatively good: about £500 million in 1939, compared with £175 million in 1913. Thirdly, in 1914 British nationals held approaching £1,000 million of securities in the U.S.A., which could be sold, or upon which loans could be raised, whereas in 1937 the figure stood at £340 million, some of which was not readily saleable. If allowance is made for the rise in prices, Britain started off in a considerably worse position than in 1913, without considering the increased cost of this war as compared with that of 1914-18. So much so that Lord Keynes wrote: ² "Britain could safely realise £350 million a year for three years from the sale of liquid assets, gold, foreign investments, etc.". The meaning of "safely" in that context can only be guessed, but Lord Keynes seriously under-estimated the cost of the war, which has now gone on for over four years.

¹ See M. Laws, *Controversy*, January 1939.

² J. M. Keynes, *How to Pay for the War*.

Early in the war the student of the financial papers began to see evidence that inroads were being made into British overseas assets, in order to finance imports without exports. By the autumn of 1940 Lord Lothian stated that British assets in the U.S.A. were nearly exhausted. The *Economist*, March 8th, 1941, reported that Britain was buying the bulk of the gold output of the South African Union for shipment to the U.S.A., and was paying for it by selling British-owned securities. In the same month £90 million of Indian loans were called up to pay for the excess of imports from that country.

Comprehensive information was not forthcoming until April 1943, when a White Paper was issued with the Budget. This gave the following figures for "drafts on external capital": 1940, £756 million; 1941, £797 million; 1942, £632 million.

From the Chancellor's speech it is clear that about £600 million will be realised by overseas disinvestment during the financial year 1943-44,¹ and Mr. Kaldor² has estimated disinvestment during 1939 at £150-200 million.

Mr. Kaldor also estimates that up to the end of 1942 loss of gold and foreign exchange accounts for £650 million, interest-free loans for £250 million, accrued sterling balances for £575 million, and actual sale of securities for £875 million.

On this basis, he estimates that British income from overseas investments in 1942 was about £140 million, and concludes that £100-120 million should be forthcoming from this source in the post-war period. Of course, if the rise in prices is taken into account, the loss of income is much greater. And in the view of the present writer these figures provide added justification for the *Economist's* comment on another part of the article in question, that Mr. Kaldor "is certainly not a pessimist".

¹ *Economist*, April 17th, 1943.

² *Economic Journal*, September 1943.

In our view, Mr. Kaldor's estimate depends on: (a) the recovery of £225 million of British capital in Europe, yielding some £8 million, and £225 million in the Far East, yielding some £17 million; and (b) the willingness of the holders of sterling balances to accept payment in the shape of exports, after the war, rather than a further repatriation of British-owned capital. It is too early to estimate accurately what will happen regarding (a), but it would seem doubtful whether all the capital, let alone annual interest payments, will be recovered. In regard to (b), it is doubtful, to say the least of it, whether the British scheme to guarantee its post-war export markets is likely to succeed, even if 3 per cent interest on sterling balances is offered. Both in India and Latin America the evidence suggests a marked preference for using the existing situation to lighten the burden of external debt—commercial investments as well as public loans.¹

It is therefore improbable that at the end of the war Britain will retain much more external capital than will offset foreign holdings in this country. We have shown that in the period between the two wars there was a strong connection between capital investment and the direction of British trade. During the war the British industrial system has been transformed, some export industries suffering badly. This in itself has encouraged the development of manufactures in the countries producing primary products—Australia, Canada, South Africa, New Zealand, India, Argentina, etc.—and the British sale of investments in those countries will mean that at the end of the war the ties of loan will have weakened.

In 1928 it was estimated that interest on foreign investments per head of the population of New Zealand was £5·7, Australia £5·6, Canada £4·5, Argentina £3·7,

¹ The *Economist*, April 3rd, 1943, reports opposition from the President of the Federation of Indian Chambers of Commerce and Industry to the proposal that Indian sterling balances in London should be used to purchase British goods after the war. Also, the Federation carried a resolution demanding that British commercial investments be repatriated to liquidate Indian sterling balances.

Union of South Africa £2 per year.¹ If these countries are almost free financially *vis-à-vis* Britain, they will be in a position largely to provide for their own future development. Industrialisation, given impetus by the war, is certain to continue in the future. Indeed, Labour successes in the Dominions have in part been a result of the open advocacy of such a policy. If we refer back to the table showing the structure of British foreign trade, it will be found that machinery, iron and steel and motor-cars were among Britain's chief exports, and that South Africa, India, Australia and Canada were among her best customers. If the Dominions and India are no longer mainly dependent on Britain, she will lose a market for both investment and consumption goods, and will be faced with competition from them for a share in what will probably be a dwindling world market. The sale of investments and further encroachments on British markets by the U.S.A. during the war are likely to make the position as bad, if not worse, in Latin America. And inevitably these developments mean a further drastic shrinkage in Britain's export trade.

Imperialism must always produce its own nemesis, for the investment of capital abroad inevitably leads to a position where debt repayments exceed new borrowings, and where the investing country is faced with competition from its former debtor. In the late 'thirties British overseas investments were being repatriated at the rate of about £40 million a year, and even if, as one would expect, the pace had quickened, it would have taken fifty years or so to have exhausted Britain's total capital overseas. But the conduct of a war with its roots, as we have shown, in the imperialist system itself will quicken immeasurably the process of imperial decline.

What will be the effect on Britain? Let us look at Great Britain's account on the eve of the war, and see how the

¹ *The Course and Phases of the World Economic Depression* (League of Nations).

war is likely to affect it. Leaving re-exports out of account, Britain's average imports and exports for 1936-38 were £866 million and £478 million respectively. The deficit on visible trade of £388 million was largely balanced by some £200 million per year yielded by foreign investments, £100 million from shipping services and £40 million for banking and insurance services. Even with over £300 million of invisible exports she was faced with a deficit of £40-50 million, which was being met by the repatriation of British capital.

The foregoing analysis leads to the conclusion that Britain will be largely stripped of her overseas capital at the end of the war; her shipping position is difficult to estimate, but it is extremely doubtful whether she will derive much income from this source, in view of the growing power of the U.S.A. Even if we join the optimistic Mr. Kaldor, it is certain that some £200 million of invisible exports will have disappeared, and this is almost certainly under-estimating the true position. Thus, other things remaining the same, Britain, in order to retain her pre-war standard of life, would have to increase her exports by some hundreds of millions a year, whereas we have seen that it is virtually certain that they will be drastically reduced as a result of the growing independence of the Dominions and India, and also of the loss of markets in Latin America and elsewhere to the U.S.A.

G. D. H. Cole¹ has tackled the problem of Britain's post-war standard of life mainly in terms of an exhaustive analysis of Britain's pre-war imports. He has convincingly shown that there is scarcely any way in which they can be cut down, since they consist chiefly of food imports (£376 million), and raw materials (£237 million), while manufactures, which include semi-manufactures used in industrial production, account for £221 million. A reduction in food-stuffs would result in a drop in standards of life; a reduction in raw materials would hit the export trade by cutting down

¹ G. D. H. Cole, *Great Britain in the Post-war World*.

its supply of primary products. To maintain pre-war imports, Mr. Cole estimates that Britain would have to increase its exports from £478 million to £1,030 million, because, to increase exports, Britain would also have to import additional materials to manufacture them. This calculation does not take into account the possibility of a worsening of the "terms of trade".

In our view, Mr. Cole may be over-estimating the margin by which Britain would have to exceed her pre-war exports in order to balance the shrinkage of invisible exports. But if our analysis is substantially true, Britain's annual exports will be somewhere about £300 million, when to maintain her pre-war standard of life she will be needing £800 million. Britain built up her position as the Metropolis of a world-wide Empire. Shorn of foreign investments, and with them markets for both consumers and investment goods, she will be a Metropolis without an Empire. How can Britain meet this position? Can she recapture export markets? Export groups are being built up by the industrialists with Government approval, seeking to organise British industry for an export struggle. Undoubtedly they look for, and will get, subsidies, etc., from the Government to improve their competitive position. But this is a game at which more than one country can play, and it seems unlikely that this effort can even restore the pre-war level of exports, let alone double it.

Old-school economic theorists will say that the wages of the workers must be reduced in order to cut costs and improve Britain's bargaining position. To this there are several answers. Such a policy would mean a cut in imports, which would result in a reduced capacity of the primary producing countries to buy from Britain, for, in the ultimate, goods exchange against goods. Along this road economic nationalism would be increased, and Britain, with its specialised economy, would be hit more than most, this time without having ties of trade and loan with the Dominions to afford a

measure of protection. Secondly, in the pre-war period about one-eighth of Britain's trade was in overseas markets. To cut wages is more likely to cause depression by reducing purchasing power at home than to stimulate exports by cutting costs. Thirdly, any deflationary policy would meet resistance from the Trade Unions, and widespread strikes are damaging in an export struggle.

The problem, therefore, resolves itself into a question whether Britain can so reorganise her industrial system as to adapt herself to the new circumstances. Mr. H. Frankel¹ has attempted to show that the industrialisation of countries producing foodstuffs and raw materials need not necessarily cause the cessation of international trade. He recognises, however, that a new balance, a new division of labour, is possible only if capital export is practicable and the standard of living of the relatively backward countries is raised. Clearly, Britain will be in no position to do this herself in the immediate post-war period. In any case, re-adjustment of the British economy on the scale needed would be a long and painful process in a country with but 6 or 7 per cent of the population normally engaged in agriculture. Self-sufficiency is impossible for Britain, and an attempt to cut imports—apart from its effect on remaining exports—would lead to a lower standard of life, since British agriculture cannot compete with other countries in producing many foodstuffs.

Mr. Cole looks partly to Europe, but principally to the U.S.A., in his quest for a way out of Britain's *impasse*. He is very downright:

“What seems out of the question is a quick and lasting recovery of British export trade, unless the United States is prepared to help by placing the capital loans which it will need to make in such a way as to stimulate a British recovery. . . . It may be that Europe after the war will

¹ *Economic Journal*, September 1943.

have to go through this slow and highly painful process of developing its economic resources without external help. If this has to happen, I do not see why Europe should not succeed in the long run in achieving plenty—though the run is bound to be very long, and the political dangers of the transition very great. What I do feel sure is that long before Continental Europe emerges from the difficulties of this process, Great Britain will have been ruined. By Great Britain's ruin I do not mean merely that we shall have ceased to count as a world power, or anything of that sort, but that the British standards of living will have fallen with a thump, and that there will be a flight from Great Britain—if there is anywhere to flee to—as considerable as the flight out of Ireland in the 19th century."

Mr. Cole also bases his policy on the retention of power in the U.S.A. by President Roosevelt, or someone of like mind, and on the willingness of such an administration to co-operate with a Socialist Britain regardless of their different political systems. He recognises, however, that a swing to restrictive monopoly capitalism in the U.S.A., and a British alignment with it, would be an "international capitalist feudalism under American leadership". He hopes for an expansionist economic policy on the part of Britain, the Soviet Union and the U.S.A., leading to the development of the resources of Eastern Europe, China, India and Africa. This is a new theory for a Socialist to propound. American industrialism is monopoly capitalism, perhaps less "restrictive" than in some other countries, because it has confidence that in a world of "no discrimination" it can penetrate every market in the world. But Mr. Cole, concentrating mainly on Britain's weakness from an import angle, and not doing more than noting a dislocation of Britain's pre-war export markets, tends to overlook not only the experience of the inter-war period, but also the world economic consequences of the war.

American capital export during the 'twenties was on a large scale, but the whole process was unstable. To protect their home market the American industrialists insisted on tariff barriers, which prevented interest on the loans being met in the shape of goods. In a recent speech, Mr. Walter Lippman "came to the reluctant conclusion that the United States is already getting ready once more to have no economic policy",¹ in the sense of a policy which would accord with its preponderant place in the world economy and its status as the great creditor nation. His basic principle is that the foreign accounts of a nation should be brought into balance by economic transactions, which for the United States would imply a willingness to accept imports without pressing its exports on the world. This was catastrophically ignored after the last war, when the U.S.A. pursued a policy of maintaining and increasing its tariff walls, promoting exports and collecting debts. He points out that over the period from 1922 to 1928 an average net payment to the United States of 472 million dollars had to be made by foreign debtors, a payment which was possible only so long as the stream of foreign loans continued. The end of large-scale foreign lending by the United States and other countries led by rapid steps to the cutting of imports by these countries, cut-throat competition in world markets, and the strangling of international trade.

Economic collapse, revolution and eventually war, according to Mr. Lippman, were the results. Whatever the attitude of the Government, there are almost no signs that this grim moral has been understood by those Americans who traditionally have determined economic foreign policy—the business-men, the shippers and exporters. So long as the profit motive underlies world trade, we cannot envisage a situation in which capitalists behave other than in this way. For it is the nature of capitalism to seek markets; it is the nature of capitalist States not to depress the domestic rate

¹ *Economist*, October 9th, 1943.

of profit in an attempt to export goods in order to pay interest to wealthy creditors abroad.

It is probable that post-war U.S.A. capitalism will feel confident, and go in for world hegemony. If the rest of the world remains capitalist, it will be discriminatory for exactly the same reason as the U.S.A. will favour non-discrimination—and that reason is the overwhelming weight of American industry in relation to the other Powers. The growing self-reliance of the great producers of primary products, experiencing difficulty in selling their wares, will not be conducive to the Dominions being a market for United States capital any more than for British. In a post-war capitalist world, Britain's economic future at best would appear to be that of a junior partner in a U.S.A.-British world imperialist hegemony, with Britain the gendarme of a Europe on rations to the U.S.A. In these circumstances, if American capital were used to re-equip Europe, a point might ultimately be reached when Britain would seek a come-back, based on a leadership of European capitalism in a struggle against the U.S.A. If Britain and Europe are Socialist at the end of the war, it is extremely difficult to foresee the close economic collaboration between them and the U.S.A. for which Mr. Cole hopes, though American loans in the immediate post-war period would make the position easier for Europe. The leftward swing in the Dominion elections offers some hope that a Socialist alliance between them and a Socialist Britain would be possible.

The most likely development of a capitalist post-war world is a short boom, during which re-equipment is going on and the U.S.A. continues to act as world creditor, followed by a depression in the face of which that of 1930-33 would appear little more than a trade recession. Armament economies would then develop on a world-wide scale. A Socialist Britain, too, would face a difficult problem in isolation, and would have to seek alignments in Europe, and if possible the British Dominions.

CAN CAPITALISM SURVIVE?

ON THE BASIS of his criticism of the economic clauses of the Peace Treaties and other work in the realm of practical economics, Lord Keynes has won a deserved reputation as a far-sighted economist. In the autumn of 1940 he broadcast a survey of the probable effect of the war on Britain's finances. The following extracts will serve to illustrate his theme:

"I find people far too depressed about our finances. The usual opinion seems to be that the war will leave us seriously impoverished, and that we are heading straight for inflation. . . . I feel more buoyant than that. . . . After a year of war Great Britain remains richer in national wealth than she was in 1937. . . . After the war . . . I hope we shall have learned some things about the conduct of currency and foreign trade, about central control, and about the capacity of our country to produce, which will prevent us from ever relapsing into our pre-war economic morass. There is no reason why most people should not look forward to a higher standard of life than they have ever enjoyed yet."

This speech is important, not only because it represents the view of Britain's ablest academic economist, but because its conclusions are reflected in the perorations of Cabinet Ministers, including leaders of the Labour Movement.

We must enquire whether the predictions of Keynes and the statesmen are true, and, if so, upon what assumptions. Keynes' view is not surprising, for it is only a few years ago that he shocked his academic colleagues with the following revelation: ¹

¹ *The General Theory of Employment, Interest and Money*, p. 129.

"Pyramid building, earthquakes, even wars, may serve to increase wealth, if the education of our statesmen on the principles of the classical economics stands in the way of anything better."

The truth of this paradox is beyond doubt. In an economic system which permits a standing army of unemployed, even "wasteful" expenditure will distribute incomes and create effective demand previously lacking for useful goods, and may therefore serve to increase real wealth production.

In order to be familiar with the essentials of Keynes' outlook it is necessary to acquaint ourselves with the thesis he argued in *The General Theory*. We have already pointed out that this work ended a whole epoch of obscurantism among economists. Having returned to dynamic analysis, in an attempt to discover the economic law of motion of modern society, Keynes reached an explanation of the causes of poverty in plenty's midst substantially similar to that of Marx. Capital accumulation and the consequent tendency of the profit rate to fall is seen to be the central factor at work in the cyclical fluctuations of trade and employment and the chronic existence of unused productive resources.¹ This proposition is now accepted by all economists "except those who have sunk their intellectual capital in the competitive economy they were brought up to describe".² It is the Keynesian policy for achieving full employment which interests us here. He calls it the socialisation of investment, and it may be summarised as follows:

1. Progressively falling interest rates to stimulate investment. (Investment here means the purchase of, for example, a machine by a business-man. In deciding whether to purchase it, he balances the rate of interest on the money

¹ *The General Theory of Employment, Interest and Money*, pp. 213, 219, 372-84.

² A phrase used by Mrs. Joan Robinson to describe the opponents of any kind of economic planning.

he would have to borrow against the rate of profit on the cost of the machine he would make by installing it.)

2. The organisation of private investment by the State through a national investment authority. (This is nowhere stated very explicitly, but page 379 of the above-quoted work bears no other discernible meaning.)

3. The supplementing of private investment by public works schemes sponsored by the State.

4. Redistributory taxation. (Keynes himself places much less emphasis on this point, but some of his followers have given it prominence.)

In the broadcast referred to above, Keynes said, "I hope we shall have learned some things about the conduct of currency and foreign trade, about central control, and about the capacity of our country to produce, which will prevent us from ever relapsing into our pre-war economic morass". It is clear, therefore, that Keynes' hope rests upon the adoption of the policy outlined above, and probably upon its extension to the international field. Is it practicable? The question may be best tackled in the light of the probable results of its operation. Keynes has written:

"... It would mean the euthanasia of the rentier, and consequently the euthanasia of the cumulative oppressive power of the capitalist, to exploit the scarcity value of capital.

"Interest today rewards no genuine service any more than does the rent of land. . . .

"I see, therefore, the rentier aspect of capitalism as a transitional phase which will disappear when it has done its work. And with the disappearance of its rentier aspect much else in it will suffer sea-change. It will be, moreover, a great advantage of the order of events which I am advocating that the euthanasia of the rentier, of the function-

less investor, will be nothing sudden, merely a gradual but prolonged [elsewhere he talks of twenty-five years or less.—W. P.] continuance of what we have seen recently in Great Britain, and will need no revolution. Thus we might aim in practice at an increase in the volume of capital until it ceases to be scarce, so that the functionless investor will no longer receive a bonus; and at a scheme of direct taxation which allows the intelligence and determination and executive skill of the financier, the entrepreneur *et hoc genus omne* . . . to be harnessed to the service of the community on reasonable terms of reward.”¹

Keynes calls this the “social philosophy to which his general theory might lead”. But it might just as truly be described as the logical end of his economic policy for achieving full employment. Keynes recognises that there are two possible methods by which full employment can be realised: either by a drastic redistribution of the national income to stimulate consumption, or by a substantial increase in the volume of investment. He chooses the second, because he believes it more important in the immediate future to increase the capital equipment at our disposal than to increase the supply of consumption goods. It is clear that either policy would have violent consequences for the system as a whole. Without going into the details of the scheme, the pure logic of which is as incontrovertible as that of the Classical Economists, let us note that its probable result, according to its author, is a zero interest rate. Any policy resulting in a fall in the rate of return on any form of private property will inevitably lead to an increasing demand for other forms of property yielding a higher return. In this way as prices rise the return on all private property will be forced down. Undoubtedly Keynes’ reference to the rent of land was made with this in mind. The euthanasia of the functionless investor

¹ *The General Theory*, pp. 376–7.

may sound less revolutionary than the expropriation of the expropriators, but it is very much the same thing.

Keynes recognises that vested interests may try to obstruct the policy he propounds, and even quotes Walter Bagehot's nineteenth-century aphorism, "John Bull can stand many things, but he cannot stand 2 per cent." But he pins his faith in the ideas of economists and political philosophers, and comments, "Indeed, the world is ruled by little else". To a Socialist, even to the present writer, who found Keynesian method a considerable advance on that of Marx in exploring some aspects of the dynamics of capitalism, a postulation of the continuance of capitalism when the rate of return on property has fallen to zero is utterly unrealistic. In the preface of the book with which we are dealing, Keynes himself wrote:

"It is astonishing what foolish things one can temporarily believe if one thinks too long alone, particularly in economics (along with the other moral sciences), when it is often impossible to bring one's ideas to a conclusive test, either formal or experimental."

And it would appear that the constant criticism of sympathetic colleagues which Keynes enjoyed in the economic field was absent in the political, and, as a result, his social philosophy is discussed in a political vacuum. Though Mr. A. L. Rowse rushed in to acclaim the Keynesian technique as a gradual road to Socialism,¹ the euthanasia of the functionless investor may not be the painless extinction which the word connotes. Following Bagehot, one might say that the Japanese nobleman, not John Bull, indulges in hara-kiri. Remembering that continents have been annexed and great wars waged in an effort to stem the fall in the rate of return upon capital, is it not reasonable to conclude that it will be with some difficulty that a capitalist Government will be

¹ A. L. Rowse, *Mr. Keynes and the Labour Movement*.

found to carry through this policy? There is also the problem as to how far the economic system resting on the profit motive could maintain employment when profit rates were falling, since hired managements are responsible to the owners of capital.

There are, moreover, other aspects of the incompatibility of capitalism and full employment. Even an approximation to full employment would weight the labour market on the side of the workers, and there would be an inevitable tendency for money wages to rise. Employers in conditions of boom would be quite ready to concede wage increases, and recoup them from the consumers by raising prices. And the spectre of the vicious spiral would indeed haunt the Treasury! Moreover, there can be little doubt that full employment in an unequal society based on private property would end industrial discipline. In a society which divides the national income in grossly inequitable proportions—half to one-tenth of the population and half to nine-tenths—the threat of unemployment is the main factor in maintaining industrial discipline. As Mrs. Joan Robinson, one of Keynes' ablest colleagues, has written:

"Unemployment is necessary to capitalism in order to preserve the stability of the value of money, and to give the employer authority over his employees."¹

Full employment would, therefore, strike at capitalism from three sides: (a) it would menace profit rates; (b) it would threaten the financial system with catastrophic inflation; (c) it would end capitalist control of its labour force.

The only form of capitalism which has effectively employed anything like the Keynes' technique is Fascism in Germany. Roosevelt's recovery scheme, according to the calculations of the economists, would have required to have spent five times what it did in order to achieve full employment. The

¹ *Fabian Quarterly*, January 1943.

Nazis were able to accomplish their aim because (a) they built an armaments economy, (b) they smashed the free Trade Union movement. Armaments are a peculiar form of capital goods, in that the demand for them is not determined by consumers' purchasing power; they do not produce consumers' goods to glut markets and endanger profit rates, and expenditure on them is the only kind of public investment which does not arouse the hostility of monopoly interests. Full employment could continue in Germany just so long as the German capitalists were prepared to allow the industrial system to be used for that purpose. Had there been an attempt to turn the system over to the production of consumers' goods, then the tendency for the rate of profit to fall would again have manifested itself. By outlawing Trade Unions and strikes, the Nazis, for a considerable period at least, prevented inflationary movements. There is, however, some evidence that under the stress of war political terror has not been sufficient to prevent the workers, particularly the Ruhr miners, from using their economic position to drive up wage rates.

In some circles it is now being suggested that on the basis of an alliance between monopoly capitalism and the Trade Unions it would be possible to create an industrial system guaranteeing something approaching full employment on a capitalist basis. This view is not confined to the schemes of Courtauld and others, but is openly discussed by Socialists who fear such a scheme. Undoubtedly there is some danger that the official Trade Union leaders may fall for this kind of arrangement. A scheme of "planned" monopoly capitalism providing a guarantee of employment, a minimum wage rising by annual increments with the productivity of labour and controlled investment would, it is argued, prevent a collapse of the financial system, while the substitution of "the avoidance of mass-unemployment" for full employment would maintain industrial discipline. Moreover, it is said,

the Keynesian assumption of a falling rate of return on capital applies only to competitive capitalism. In our view this is a completely fallacious notion. First, and most important, it is contrary to the nature of monopoly capitalism to employ an expansionist technique except for war purposes. The essence of monopoly is to sustain profit rates by restricting output and by keeping idle a part of existing capital equipment. For a half-century classical economic theory, on the basis of the incontestable logic of Say's law, which maintained that since all costs were also incomes, no problem of effective demand could possibly arise, obscured the real nature of the system. Similarly, those who conceive of monopolists practising an expansionist policy, except in an armaments economy, are able to build up a logically consistent argument which has but one weak link—it ignores the nature of monopoly.

At the root of the problem remains the dilemma described by Rosa Luxemburg in the following terms: "You cannot buy copper-mine shares with a stock of unsaleable tallow dips, or found an engineering works with a stock of equally unsaleable goloshes". Tangible commodities apart from money values are involved in the process of capital accumulation, and the conquest of unemployment and capitalist crisis inevitably involves a drastic change in the distribution of incomes, either directly or *via* a sharp fall in the rate of return upon private property. Monopoly capitalists will jib at high direct taxation to finance public-works schemes, and will resist to the uttermost any incursion by the State upon the territory of industrial production. Here we are concerned only with the relation of monopoly capitalism to full employment and the inadequacy of its "solution". It has, of course, many other defects, the most important of which is that it would almost certainly lead to stagnation so far as technical discovery and scientific advance are concerned, and would, moreover, deprive the con-

sumer of any semblance of control over the industrial process.

The end of all capitalist schemes for conquering economic crises and achieving full employment is Fascism. The economics of Fascism are those of monopoly capitalism, and Fascism is the politics of monopoly capitalism. An armaments economy, imperialist expansion and war provide the only escape for capitalism from permanent crisis.

Moreover, given the economic situation which is likely to confront Britain after the war, it is extremely doubtful—the above objections aside—whether full employment could be achieved on a purely national basis. This is clearly recognised in the preface to the Keynes' plan for controlling international currency, where it is stated that this scheme must be used in conjunction with others covering international trade, the distribution of primary products and international investment.

It is worth while, however, briefly to examine the Keynes and White plans, representing Britain and the U.S.A. respectively, for tackling currency problems. For, if further proof were needed of the economic interdependence of the modern world and the obsolete character of the Nation State, it might be found in abundance in the attention now being given to the problem of maintaining harmonious relationships between national currencies in the post-war period. What lies behind the concern about stable currencies? First, money is a standard for deferred payments, and consequently violent fluctuations in its value disturb international trade. Secondly, the problem is complex, because if the exchange value of a currency is too high, then wage cuts will follow, and, conversely, movements of wages will affect the exchange value. Thus both international prosperity and national standards of life are bound up with currency problems. In the old days the gold standard was supposed to solve them, but it broke down because it will only work if the "rules of

the game" are followed. When they dictated an adjustment involving a reduction in a national standard of life¹ there was a temptation to ignore them, and to gain momentary advantage at the expense of those countries which remained loyal to the gold pact.

Nevertheless, if entrepreneurial trade is to flourish, an international currency (for in essence that is what stable exchange values mean) is necessary. In the inter-war period, foreign trade was regimented in one way or another by the various States, because the "rules of the game" had been abandoned. But this meant economic nationalism, a departure from the ideal world of the Classical Economists, where goods and capital flow freely across frontiers, and where the lowest bid takes the available custom.

The Keynes and White plans are an attempt to revive international trade under capitalism. They both seek to provide a mechanism which will: (a) keep the internal values of currencies in step, and (b) adjust the exchange rates in accordance with changing internal values resulting from domestic policies. To accomplish these aims, an international authority is required, and the various countries must be prepared to adopt internal policies and accept readjustments in exchange values as laid down by it.

Whether the scheme is that of White, with a large stabilisation fund to which the members contribute, or that of Keynes, where surpluses and deficiencies are put into a clearing account (the former financing the latter), or whether there is a compromise between them, the whole conception involves such a complete change in the behaviour of capitalists as to appear quite unreal.

The central problems are capital transactions and the distribution of power under any international currency plan. Unless there is to be an attempt to maintain strict secrecy regarding all the vital statistics, or, alternatively, speculation

¹ In particular a reduction in the rate of profit.

in currencies is somehow to be rooted out, it is certain that the whole world would know what is about to happen long before the pound and the franc were readjusted. In these circumstances currency gambling would certainly increase. Flights of capital for political and speculative reasons would be encouraged, and since it is well-nigh impossible to define capital transactions, national control of all transactions would appear on the scene. And in effect that means State control, fatal to free international commerce. There is also the difficulty of combining a domestic policy for achieving full employment, involving many national controls, with an international currency scheme designed to remove control by the Nation State. Thus the dilemma of capitalism re-enters, though masked in Keynesian dress.

The distribution of power raises further problems. In the original plans the relative positions of Britain and the U.S.A. are clearly to be seen. The Keynes scheme is reasonably definite, while that of White must be "read in the spirit of a detective story", to use the phrase of a recent writer in the *Economic Journal*. Keynes argues that the distribution of power should be related to the pre-war volumes of international trade, which is to Britain's advantage. White, outlining a scheme which gives the U.S.A. a veto, and the entire British Empire a 17½ per cent interest, is clearly bargaining for post-war position. And among the barons of finance in Wall Street even White's original proposal was criticised. Since then there have been many revisions, but none of them meets squarely the real problem. Dollars are going to be scarce in the post-war period, and every nationalist politician in other countries will face a great temptation to break away from any international scheme. Unless the U.S.A. is to abandon the profit motive in its foreign trade, there is no escape from the post-war problem of world capitalism, because American economic strength *vis-à-vis* the rest of the world will lead as surely to tariff barriers in other

countries as did Britain's supremacy at the end of last century.

Currency problems are not the root cause of maladjustments in the present system, but merely reflect the internal dilemma of capitalism, the gulf between production and consumption, the unequal development of capitalism in the great Powers, and the political instability arising from these factors.

Given economic collaboration between the great Powers, a new period of capitalist expansion based on the exploitation of the resources of India, China, Africa and elsewhere might be possible, capital export sustaining the rate of profit. Such a development is extremely unlikely, on account of the unequal development of capitalism, as Lenin showed in his book, *Imperialism*. The Russian economist, Varga, has recently added up-to-date material, which reveals an intensification of this tendency.

He gives the following figures, relating to the production of basic industries in the great Powers, which summarise the causes of the First World War.

COAL OUTPUT IN MILLION TONS

| | 1880. | 1900. | 1913. |
|--------------------------------------|-------|-------|-------|
| Great Britain | 149.0 | 228.8 | 292.0 |
| Germany | 47.0 | 109.3 | 190.1 |
| U.S.A. (including lignite) | 64.9 | 244.6 | 517.0 |
| France (including lignite) | 19.4 | 33.4 | 40.8 |
| Japan | 0.8 | 7.5 | 21.3 |

PIG-IRON OUTPUT IN MILLION TONS

| | 1880. | 1900. | 1913. |
|-------------------------|-------|-------|-------|
| Great Britain | 7.7 | 9.0 | 10.3 |
| Germany | 2.5 | 7.5 | 19.3 |
| U.S.A. | 3.8 | 13.8 | 31.0 |
| France | 1.7 | 2.7 | 5.2 |
| Japan | — | 0.02 | 0.2 |

STEEL OUTPUT IN MILLION TONS

| | 1880. | 1900. | 1913. |
|-------------------------------|-------|-------|-------|
| Great Britain | 1.3 | 4.9 | 7.7 |
| Germany | 0.7 | 6.4 | 18.9 |
| U.S.A. | 1.2 | 10.2 | 31.3 |
| France | 0.4 | 1.6 | 4.7 |
| Japan (open hearth) | — | — | 0.2 |

These developments are also reflected in world trade, as the following figures show:

DISTRIBUTION OF WORLD TRADE IN PERCENTAGES

| | 1886-90. | 1900-04. | 1909-13. |
|-------------------------|----------|----------|----------|
| Great Britain | 20.2 | 18.6 | 16.2 |
| Germany | 11.6 | 12.8 | 13.6 |
| U.S.A. | 10.8 | 11.8 | 11.7 |
| France | 10.9 | 8.5 | 8.5 |
| Japan | 0.7 | 1.4 | 1.6 |

The significance of these statistics lies in the relative growth of the industrial and commercial power of the leading States of the world. They reveal clearly the declining power of Britain and France relatively to Germany and the U.S.A. In Europe, Germany had outstripped France in the key products, coal and steel, and was beginning to rival Britain in coal and had surpassed her in steel. The time had come in 1914 for a re-division of the world on the basis of the new alignment of forces. The U.S.A., possessing vast areas for development both at home and in the rest of the American Continent, entered the conflict in Europe at a late date, while Japan used the war situation further to change the relationship of forces in the Far East.

The post-war settlement was temporary, because the relative economic strength of the Powers did not stand still, as the following figures show:

COAL OUTPUT IN MILLION TONS

| | 1929. | 1932. | 1936. |
|--------------------------------------|-------|-------|-------|
| Great Britain | 262.0 | 212.1 | 232.2 |
| Germany | 163.4 | 104.7 | 158.4 |
| U.S.A. (including lignite) | 552.3 | 326.2 | 441.5 |
| France (including lignite) | 53.8 | 46.3 | 45.2 |
| Japan | 34.3 | 28.1 | 38.4 |

PIG-IRON OUTPUT IN MILLION TONS

| | 1929. | 1932. | 1936. |
|-------------------------|-------|-------|-------|
| Great Britain | 7.7 | 3.6 | 7.8 |
| Germany | 13.4 | 3.9 | 15.3 |
| U.S.A. | 43.3 | 8.9 | 31.5 |
| France | 10.4 | 5.5 | 6.2 |
| Japan | 1.5 | 1.5 | 2.9 |

STEEL OUTPUT IN MILLION TONS

| | 1929. | 1932. | 1936. |
|-------------------------|-------|-------|-------|
| Great Britain | 9.8 | 5.3 | 11.9 |
| Germany | 16.2 | 5.8 | 19.2 |
| U.S.A. | 57.3 | 13.9 | 47.7 |
| France | 9.7 | 5.6 | 6.7 |
| Japan | 2.3 | 2.4 | 5.0 |

DISTRIBUTION OF WORLD TRADE IN PERCENTAGES

| | 1925-29. | 1932. | 1936. |
|-------------------------|----------|-------|-------|
| Great Britain | 13.6 | 13.4 | 15.4 |
| Germany | 8.7 | 9.3 | 9.1 |
| U.S.A. | 14.0 | 10.9 | 12.1 |
| France | 6.4 | 7.3 | 6.1 |
| Japan | 3.0 | 2.9 | 3.9 |

These figures show how the decision of the First World War held the German competitor back for over a decade, but they also reveal its rise again in the 'thirties, primarily as a war economy practising autarchy. They show the further decline of France, though the Peace Treaty had given her some new strength. The overwhelming power of the U.S.A., Britain's continued decline, though held in check by imperial measures such as the Ottawa Agreement, and the continued upward trend in the power of Japan, are also to be seen. Between 1913 and 1929 industrial production in Great Britain dropped by 1 per cent, that in the U.S.A. grew by 70 per cent, in Japan by 197 per cent, in Germany by 13 per cent, in France by 38 per cent.

This unevenness in the growth of capitalism in the great Powers lies at the root of economic nationalism, and prohibits a world consortium of capitalism for a peaceful division

of the earth. For the balance of forces is continually changing, and in a system in which the rate of profit is always tending to decline there is an inevitable drive for a re-division to fit in with the ever-changing relative strength of the Powers. This tendency towards unequal development makes all the schemes propounded for the creation of a federal capitalism quite unrealistic. It is worth while, however, taking a brief look at some of the schemes which have been propounded, because it is extremely probable that some such idea will be resurrected as the war draws to its close.

At the beginning of the present war, Liberal opinion in Britain, and to some extent in the U.S.A., ranged itself behind a demand for a Federal Union, basing itself on the assumption that war was primarily a political act arising from the unrestricted political sovereignty of Nation States. This school of thought propagated a solution of the problem of war by Federal Union.¹ There was a number of different proposals, but each held that the League of Nations failed because it dealt in talk, not government.

Mr. Clarence Streit and Mr. W. B. Curry argued for a federation comprising America, Great Britain, Canada, Australia, South Africa, New Zealand, Ireland, France, Belgium, Holland, Switzerland, Denmark, Norway, Sweden and Finland. These States were chosen because they were democracies, and they were regarded as a nucleus of a world federation. What is important to us, though largely ignored—as were economic questions generally—by the Federal Union advocates, is that the above States were all capitalist democracies possessing roughly similar economic systems as well as political. Since the Federal Government was to be endowed with complete powers over both inter-State and foreign trade and over the financial system, homogeneity of economic systems was, of course, a *sine qua non* of the pro-

¹ For a full discussion of Federal Union see John Strachey, *Federalism or Socialism*.

posal. British Federal Unionists—for example, Mr. Ivor Jennings—have urged a Federal Union without the United States, but including a democratic Germany.

As the war has proceeded, bringing in the U.S.A. and the U.S.S.R., specific proposals for Union have receded into the background, but constant reference is made to concerted action by the United Nations in the post-war period.

Streit, unlike the others, is quite frank as to the central instrument of his Union for preventing war. He refers to his federation as “a Great Power”, “almighty on this planet”, “towering above all the rest of the world”. Bluntly, he advocates peace through world domination by the united capitalist democracies, which will force all other States ultimately to join them. He seeks to end “all this balance of power and neutrality nonsense” by creating a balance of power permanently weighted on the side of the capitalist democracies. The frequent references to concerted action by the United Nations to shape the post-war world similarly embrace a conception of super-power politics.

It is clearly impossible for any real federation to take place between the Soviet Union and the capitalist democracies, because of their radically different economic systems. Let us, then, examine this proposal in terms of the post-war relationship of the United States to Britain. We have already seen how unequal development is affecting the outlook of the two Governments in the international currency schemes, and we have already observed that the American references to the desirability of free trade are a reflection of the industrial strength of the U.S.A. *vis-à-vis* the other States of the world.

Miss Barbara Ward has said:

“Observers who come back from the United States are all impressed by the fact that the freeing of international trade, the abolition of quotas, is at the root of United States thinking. And it is worth while noticing that the

people who are most anxious to see restored this flow of free international trade are among those who are most friendly to this country, nor need we think that the end of President Roosevelt's tenure of office will make any difference, because any successive government will feel almost as strongly about free international trade as does the present administration. We are here at an absolute bedrock in American economic thinking. Prosperity, raising standards of living, can be achieved by securing the return of the increase in international free trade."¹

But the United States is the Classical Economists' headache, because it combines tremendous economic potential with something approaching economic self-sufficiency, and it is also a great export country. It does not need to buy as much as it sells; it can under-bid and over-produce any other country in the world. Again, Miss Ward has put the position succinctly:

"The America of the 20th century constitutes a problem which Britain constituted in the 19th century, that is of a country with so strong an economy that it is in a position to make impossible a really strong development of industry in other countries. We are facing an overwhelmingly powerful economy, better equipped than ours, and at the same time demanding standards of free trade, which in a completely unregulated world economy cannot but reflect unfavourably on our own industrial system. Now suppose it is possible to create between Britain and America a complete customs union? It is obviously an exaggeration, but there would be some analogy between the position of say Rhondda and Jarrow inside the British economy. It would be no longer profitable to produce in Britain a whole range of goods produced here now. There

¹ Report of National Peace Council Conference, *The British Commonwealth and the U.S.A. in the Post-War World*.

would be a resultant flight of capital to the United States, and in completely free conditions this could only be balanced by wholesale emigration to the United States—which I cannot think would be very welcome at Ellis Island.”

Let us remember that the Ottawa Agreement was in some measure a reaction to American encroachment on British Dominion markets. If Britain and America are brought within any form of international agreement which leads to competition on equal terms, then Britain is vanquished in an economic sense. Dollars are, in the nature of things, going to be scarce in the post-war world—they must be, if the U.S.A. sells more than it buys. Moreover, in our view it is as inevitable that Britain and other capitalist countries will in the long run erect tariff barriers and practise all the other forms of economic nationalism, as that the German economist, List, should develop the theory of protection in the nineteenth century, and that country after country competing with Britain in the world market should devise tariff systems.

So long as the industrial system of the world is based on the profit motive, in the face of grossly unequal productive power, economic nationalism must prevail. In these circumstances it is virtually certain that the monopoly interests in the U.S.A. will demand tariff walls to protect their domestic market, and this will militate against the use of American capital resources to develop backward territories. In our view this factor will prevent any scheme for a World Capital Bank, such as has been suggested by the U.S.A. in its bid for world hegemony, from becoming a permanent institution in the capitalist world. This does not, of course, preclude the establishment and functioning of such a bank in the period of post-war reconstruction, when none of the other capitalist powers will be in a position to resist the will of the U.S.A.

But the successful use of American capital in Europe and elsewhere must of necessity bring with it a new phase of uneven development, a challenge to American supremacy.

A British alignment with America in the long run can mean only a junior partnership for Britain, on account of the superior industrial strength of the U.S.A. Even the most zealous advocates of Anglo-American unity to re-establish international trade, and with it a renewal of capital export, admit that the prerequisites for this are, first, the achievement of full employment in both Britain and America; and second, the creation of international economic institutions, which require political authority to enforce their decisions. We have attempted to show that capitalism is incompatible with either of these conditions.

World capitalism cannot survive because, having performed its historic function in developing the forces of production, it is now unable fully to utilise them. Monopoly at home and imperial rivalry abroad is not an accidental feature of the modern world, but is the outward manifestation of capitalism's desperate struggle to maintain the motive force of the system, the rate of profit. Federal Union under capitalism exists principally in imperialism. The endemic crisis which afflicts the capitalist world is a symptom of its decay, a harbinger of its collapse. The only way of escape for humanity from the social instability accompanying capitalist decline is the struggle for a World Socialist Union. To that end, the creation of a Socialist United States of Europe is the first great need, because in Europe, the cradle of industrialism, all the potentialities exist for the Socialist planning of a continent. A solution to the post-war economic dilemma of Britain must be sought in a Socialist Europe.

CHAPTER VI

A SOCIALIST UNITED STATES OF EUROPE

"England still stands outside Europe. Europe's voiceless tremors do not reach her. Europe is apart and England is not of her flesh and body. But Europe is solid with herself. France, Germany, Italy, Austria and Holland, Russia and Rumania and Poland, throb together, and their structure and civilisation are essentially one. They flourished together, they have rocked together in a war . . . and they may fall together. . . . If the European Civil War is to end with France and Italy abusing their momentary victorious power to destroy Germany and Austria-Hungary now prostrate, they invite their own destruction also, being so deeply and inextricably intertwined with their victims by hidden psychic and economic bonds."—J. M. Keynes, *The Economic Consequences of the Peace*.

THE ANALYSIS OF Chapter III reveals clearly the pivotal position of European economic anarchy in the origins of the Second World War. Conversely, it may well be found that European economic unity is a pivotal point in the promotion of world peace. The problem is urgent. History records the collapse of other great civilisations, of which Greece and Rome are classic examples. Unless the peoples of Europe think clearly, organise speedily and act decisively, Western civilisation, divided by unbridled national sovereignty, rent by economic nationalism and devastated by resultant war, may follow its great predecessors to destruction. Already, hunger, slavery and massacre have engulfed the peoples. Unite or perish—these are the alternatives before Europe today. Yet shrill cries continue to pierce the air, demanding fragmentation instead of unification, and making plain the need for precise analysis and, arising therefrom, for bold and concrete plans to rebuild Europe on secure foundations.

THE URGE TO ECONOMIC UNITY

Prior to the Mercantile Revolution the centres of Europe were to be found on the borders of the largest inland sea—Greece and Rome in the Mediterranean. With the develop-

ment of commerce, the traders of this area—Genoa and Venice—and the Hansa League of the Baltic became the important carriers of trade. The opening of the New World in the sixteenth century transformed this situation: the countries with an Atlantic seaboard—France, Spain and Britain—became the expanding commercial Powers. Geographical position and the twin doctrines of the “Balance of Power” and the “Freedom of the Seas” led Britain to supremacy. Of the maritime Powers, Britain was best suited for the *Industrial Revolution*. Her world trade, her deposits of coal and iron contiguous with the sea, and her island position combined to secure her triumph. Her military weapon of defence—the Navy—was also a commercial weapon of attack, while the English Channel protected her from the destruction caused by the Napoleonic Wars.

A striking dialectic is here to be observed. Britain’s island position led to her rise as a great commercial Power, the carrier for the world; at the time of the Industrial Revolution this, in turn, provided the basis for her transformation into the workshop of the world; the Industrial Revolution brought with it the railway and mechanised militarism, both of tremendous revolutionary potentiality; as the railway made unification practicable and mechanised militarism made it possible, there developed an historical tendency for the maritime Powers to decline in the face of the ascendancy of the great land masses. Germany appeared in Europe, and the U.S.A. in the New World added to the challenge to the world power of Britain. The dialectic will end—we hope and believe—by creating the prerequisites for economic blocs wider than Nation States and for supra-national political authority, thus vanquishing both maritime and land Powers.

Behind the urge to economic unity is the development of international trade arising from divergent costs of production. Specialisation, a division of labour between nations, as well as within them, brings advantages by allowing each

country to concentrate on the production of those commodities it is best able to produce.

During some 2,000 years of agrarian civilisations, the exchange of products was intermittent and incidental to the means of living. Industrialism led to a growing volume of international trade, and, as industrial technique developed, so the exchange of goods to mutual advantage became constant and fundamental. Today, when a crisis in a country producing primary products will react on its industrial customer and *vice versa*, in what sense can States be called independent? What State which is not self-sufficient in iron and steel, the foundation of modern industry, or in the basic fuels, coal and oil, can lay claim to national independence when isolation means the breakdown of the industrial system?

Between 1873 and 1913 the foreign trade of France increased by 206 per cent, of Britain by 214 per cent, of Germany by 347 per cent, and of the U.S.A. by 400 per cent. Parallel with the growth of industrialism, transport developed. Between 1842 and 1937 the merchant fleets of the world grew from under 7 million tons to over 65 million. European railways grew in length from nothing in 1820 to 224,000 kilos. in 1890, to 346 kilos. in 1913, while between 1913 and 1930 some 41,000 kilos. were added to European railways outside the boundaries of the U.S.S.R. And during the period between the two wars regular air-lines have still further linked up the nations of the world. Between 1919 and 1935 route mileage of regular air services increased from 3,200 to 278,200, and miles flown from 1,922,000 to 149,342,000.

World trade, however, demands more than transport. It needs world markets, perhaps best exemplified by the Cotton Futures Market, with world prices; international loans bring with them stock exchanges at which can be bought investments in almost any country; the bill of exchange as a means of international payment necessitates discount houses

dealing with numerous currencies; the need for easy and speedy communication brings cables, telegraphs and radio. In this way, industrialism gives rise, not merely to international trade, but to its concomitants, land, air and sea transport and world-wide systems of communications which transcend frontiers.

There is another aspect of this question which is frequently overlooked. Industrialism has found its expression in the arts of war in the shape of "a mechanised Attila" (Leon Blum). Writing some twenty years ago of the small Nation States, Mr. H. N. Brailsford expressed it thus:

"Their independence is only nominal. Alike in their commercial and political life they must obey the slightest suggestion of the powers which possess the force or the wealth to control their destinies. . . . These little States, whose chief possession is a strip of coast, have become items in British naval policy, useful when we please to trade, indispensable when we prefer to blockade. The minor Continental States dovetail as naturally into the military policy of France. They have no free share in determining the policy of any unit larger than themselves."¹

Since this was written the development of the tank and the bomber has still further revolutionised military warfare. In the present war, even powerful States—*e.g.*, France—have been crushed in a few weeks, while the fragments of Europe have scarcely fought at all; whereas up till a short time ago even ludicrously small States could, with some effect, resist the encroachments of a large Power, threatening to maul it so much as to deter it from attack. Prior to the dive-bomber and the panzer division, States such as Poland or Czechoslovakia could have resisted the might of Germany for a long period. What, then, is the true connotation of "national sovereignty" in the modern world? In most cases ultimate

¹ Brailsford, *After the Peace*, pp. 58-9.

power—economically to starve and politically to submit! Well may Mr. G. D. H. Cole refer to the general run of States today as “impostors, laying claim to a sovereignty they do not in fact possess”. As the cannon-ball destroyed the feudal domain, so the panzer division and the dive-bomber have destroyed the Nation State. The economic interdependence of the modern world has transformed the national barrier into an anachronistic absurdity, while mechanised militarism has rendered it little more than a political phantom. There can be no doubt at all that the future lies in the direction of either gigantic autarchic empires or large-scale voluntary federations.

EUROPE AS AN ECONOMIC ENTITY

As the Netherlands were once the cockpit of Europe, so today Europe is the cockpit of the world. Four per cent of the emergent land of the world,¹ the pioneer of industrialism, possessing one quarter of the world's population, Europe in the post-Versailles period claimed nearly half of the Nation States of the world. Yet the fatuity of the position has emerged clearly from our review of the origins of the present war.

Geographically, Europe presented little difficulty to the growth of international life, for the European plain, broken only by the Alps and Carpathians, offered few obstacles to roads, railways and canals, the means of economic intercourse. Economically, Europe forms an admirable unit for supra-national economic planning, as we shall seek to demonstrate.

From the middle of last century the outward and visible signs of the inner urge to unity have mounted steadily. The conquest of mountains proceeded rapidly—the Munich-Rome line over the Brenner (1867); the French lines into Italy with the Mont Cenis Tunnel (1871); Basle-Milan with

¹ Excluding European Russia.

the St. Gothard (1883); Basle-Vienna with the Arlberg (1884); Lausanne-Milan with the Simplon (1906); Munich-Trieste with the Pyhrn (1907); Berne-Milan with the Lötschberg (1911). Europe possesses three major trans-Continental lines—that across the Northern Plain, linking Paris, Berlin, Warsaw, Moscow and thence to the Far East; the Central line, linking Vienna, Budapest and Istanbul; the uncompleted Southern line, linking Bordeaux, Lyons, Milan and Odessa.¹

The great waterways—Danube, Rhine, Elbe, Oder and Vistula—increase the ease of transport. With the preponderance of ocean transport, the European States without access to the sea—Switzerland, Austria, Hungary and Czechoslovakia—were confronted with a serious economic problem. This was partially surmounted by the internationalisation of rivers, but the circumstances in which it took place and the way in which it was attempted were bound to lead to its breakdown. At the time Lord Keynes commented:

“The Treaty, however, has made the international character of these rivers a pretext for taking the river system in Germany out of German control. . . . Thus the great waterways of Germany are handed over to foreign bodies with the widest powers. . . . It is almost as though the Powers of Continental Europe were to be placed in a majority on the Thames Conservancy or the Port of London.”²

In 1936 a resurgent Germany cancelled the international regime. From this emerges not only the need for internationalisation, but also for a supra-national authority to give it stability.

With a large mercantile marine, about a third of the world's railways, tolerable road and canal systems, and the great possibilities of air-lines, Europe is a satisfactory trans-

¹ E. Herriot, *The United States of Europe*.

² *The Economic Consequences of the Peace*, p. 101.

port unit. The demands of international trade called early for some co-ordination of communication, and the shape of things to come is to be discerned in such links-up as the Postal Union, the Telegraph Convention, the International Consultative Committee dealing with telephones, the International Broadcasting Union.

Turning to the industrial production of Europe, the following table gives a picture of its position in the world economy:

| | Imports. | Exports. |
|----------------|----------------|------------------------------------|
| 1936 | 7,216 million. | 5,627 million (old gold, dollars). |

| | 1935-36. Percentage of World Production. | Largest Producer. |
|-----------------------|--|-------------------|
| <i>Food.</i> | | |
| Fish | 37 | Great Britain. |
| Wheat | 35 | France. |
| Barley | 39 | Germany. |
| Rye | 50 | " |
| Oats | 38 | " |
| Maize | 15 | Rumania. |
| <i>Minerals.</i> | | |
| Coal | 43 | Great Britain. |
| Petroleum | 4 | Rumania. |
| Iron Ore | 48 | France. |
| <i>Industrial.</i> | | |
| Steel | 41 | Germany. |
| Copper | 14 | Belgium. |
| Lead | 26 | Germany. |
| Tin | 30 | Great Britain. |
| Aluminium | 54 | Germany. |
| Nickel | 3 | Norway. |
| Rayon | 41 | Great Britain. |
| Wood Pulp | 50 | Sweden. |
| Paper | 40 | Germany. |
| Electricity | 46 | " |
| <i>Other.</i> | | |
| Beer | 61 | Germany. |
| Wine | 84 | France. |
| Tobacco | 14 | Greece. |

Rice, cocoa, tea, coffee, pepper, ground nuts, soya, copra, cotton jute, rubber, are among the more important food-stuffs and raw materials which cannot be produced in the European climate, while she needs to import wheat, barley, maize, sugar, fruits, meats, etc. She is also deficient in vital industrial products such as petroleum, steel alloys (manganese, nickel, chrome, tungsten, molybdenum, vanadium, cobalt), copper, lead and other metals, though there can be little doubt that synthetic production, given impetus by the war, will do something to reduce this deficiency, and could do a good deal more if the obstruction of vested interests were removed.

Of the world's national wealth (natural productive power, invested capital, produce of labour, means for the satisfaction of needs), estimated in the middle 'thirties at £190,000 million, the European States Britain, Germany, France, Netherlands, Spain and Italy disposed of nearly a quarter of that total. In the more important sources of industrial power and raw materials, Europe's reserves, as at present estimated, are a long way behind her current production when expressed as a percentage of world figures.¹

From this survey certain definite conclusions may be drawn. In wealth and productive power, Europe, though not self-sufficient, is a unit with substantial economic resources, possessing a useful balance between industry and agriculture, and is a workable proposition for Socialist economic planning. From a long-term point of view—and here one must speak with caution—it would appear that, discounting revolutionary discoveries and inventions, it is not only desirable, but imperative that Europe should forge close links with the rest of the world, and with the U.S.S.R. in particular. And with the industrialisation of other countries, possessing large reserves of minerals, raw materials, etc., a development of European agriculture is desirable both

as a long-term and a short-term policy. Let it be emphasised that we are arguing in favour of world economic unity, with European unity as a stage in reaching that destination, and while a measure of self-sufficiency may be *politically* desirable in the short run, we are not advocating autarchy but world co-operation.

THE INDUSTRIAL STRUCTURE OF EUROPE

It is convenient for our purpose to divide the pre-war countries of Europe into three groups.¹

(a) *Industrial*, in which over 40 per cent of the working population are engaged in industry.

(b) *Industrial-Agricultural*, in which 25-40 per cent are engaged in industry.

(c) *Agricultural*, in which less than 25 per cent are engaged in industry: (c1) with 10-25 per cent engaged in industry and (c2) almost entirely agricultural.

Accordingly, Great Britain, Germany, Belgium and Switzerland are classified as *industrial*; France, Italy, the Netherlands, Austria, Czechoslovakia, Sweden and Norway as *industrial-agricultural*. Of the agricultural countries, Denmark, Poland, Spain, Irish Free State, Greece, Hungary, Finland, Estonia and Latvia were developing industrially, building up their own heavy industry, and had 10-25 per cent of the working population employed in industry. The remainder—Portugal, Rumania, Yugoslavia, Albania, Bulgaria, Turkey and Lithuania—are almost entirely agricultural.

The national income per head of the population of a country is determined by its natural resources and industrialisation, its exports, visible and invisible, its income from tourist traffic, and the density of its population.² Before look-

¹ Based on Statistics for 1935-6, quoted in A. Rado, *An Atlas of Today and Tomorrow*.

² The nature of its economic system is, of course, a fundamental factor, but falls outside the scope of this part of the argument.

ing at Europe, it is worth noting that of the countries of the world, the U.S.A., Canada, New Zealand, Australia and Argentina head the list, and they are without exception (b) countries—this significant fact will offer some guidance in our analysis of Europe.

NATIONAL INCOME PER HEAD OF POPULATION ¹

| | Gold Pounds. | | Gold Pounds. |
|------------------------|-----------------|------------------|-----------------|
| United Kingdom . . . | 56 (a) | Finland . . . | 16 (c1) |
| Netherlands . . . | 56 (b) | Hungary . . . | 15 (c1) |
| Switzerland . . . | 53 (a) | Rumania . . . | 14 (c2) |
| Norway . . . | 48 (b) | Estonia . . . | 14 (c1) |
| Sweden . . . | 40 (b) | Latvia . . . | 14 (c1) |
| Germany . . . | 39 (a) | Spain . . . | 13 (c1) |
| Denmark . . . | 38 (c1) | Greece . . . | 12 (c1) |
| France . . . | 36 (b) | Yugoslavia . . . | 12 (c2) |
| Belgium . . . | 30 (a) | Poland . . . | 11 (c1) |
| Austria . . . | 24 (b) | Lithuania . . . | 11 (c2) |
| Czechoslovakia . . . | 23 (b) | Bulgaria . . . | less |
| Irish Free State . . . | 22 (c1) | Turkey . . . | than |
| Italy . . . | 21 (b) | Albania . . . | 10 (c2) |
| Portugal . . . | 18 (c2) | | |

The "national average" is by no means a perfect guide to the standard of life of a people, because it does not take into account the *distribution* of income within the country. Nevertheless, the above figures teach important lessons. They reveal unmistakably the poverty of the peasant countries of Southern and Eastern Europe, but not the inevitable poverty of agricultural countries. They show that in countries such as Denmark and Holland, where adequate capital has been employed and where markets in the industrial countries exist, a reasonable standard of life is obtainable. If Europe is to become a planned economic unit, this problem of peasant poverty must be tackled with resolution. At the present time, with the existing lack of capital and modern technique, the agricultural exports of countries such as Yugoslavia and Rumania are not really surpluses at all. For the

¹ Mr. Colin Clark's estimates differ from Mr. Rado's in some respects, but are fully consistent with the conclusions drawn in this book.

peasants could consume all they produce, but they are driven to export in order to pay landowners and money-lenders, and to get money for industrial goods and agricultural supplies.

The drastic fall in prices of agricultural products which heralded the great depression hit the peasant countries with especial force. For the raw-material producer, particularly the farmer, is less able to deal with such a situation—he is less well organised and less able to restrict production than the industrialist. In 1932, eight European countries (Austria, Bulgaria, Czechoslovakia, Greece, Hungary, Poland, Rumania, Yugoslavia) needed £53 million per year to pay their debtors, while they had a collective adverse balance of trade of £5½ million.¹ A freezing of capital was bound to follow, with the result of still further starving them of credit facilities.

In his economic strategy for war, Hitler took full advantage of this situation, in which the peasants of South-eastern Europe were without a market and starved of capital. Germany entered into agreements for the exchange of agricultural surpluses for German industrial products, using the plight of these countries to drive hard bargains. Nevertheless, even this market was preferable to no market at all. By the outbreak of the present war Germany controlled about 60 per cent of Bulgaria's foreign trade and about one-third of that of Greece and Rumania. On this situation G. D. H. Cole has written:²

“Pre-war Europe was an economic monstrosity. . . . So much was this the case that, from the purely economic view, it is quite arguable that it would be better to let Hitler conquer all Europe short of the Soviet Union, and thereafter exploit it ruthlessly in the Nazi interest, than to go back to the pre-war order of independent Nation States with frontiers drawn so as to cut right across the natural

¹ Stephen King Hall, *Our Own Times*, p. 678.

² *Europe, Russia and the Future*, pp. 104-5.

units of production and exchange. This is part of the reason why there is in the nation states which Hitler has overrun no general repudiation of the Nazis' 'New Economic Order'. If the defeat of Germany were to mean a return to pre-war conditions, why should the peasants of Rumania or Yugoslavia desire it? May not any sort of European unification be, from their point of view as poor producers, better than none?"

THE FUTURE OF EUROPE

In the economic anarchy which produced both Hitler's "New Order" and the war, there are two key problems: peasant poverty and the heavy industries centred on Ruhr-Lorraine. From our analysis in Chapters III and IV it is clear that the industrial countries of Europe, and Britain in particular, can prosper only within a prosperous Europe, and the two problems are therefore inter-linked.

The future of Europe must lie along the road of economic unity. Some Liberals will argue that all that is required is a return to free trade, so that commodities and capital flow freely across frontiers and full advantage is taken of the economic interdependence of Europe and the world. Customs barriers, however, are not the cause, but an effect, of economic nationalism, the cause lying deeply rooted in the private ownership of the means of life and the profit motive. The free market of the Classical Economists (in its ideal form, always a text-book formula rather than a reality) cannot be revived today, when monopolies are entrenched busily restricting production to levels which yield the highest returns on capital. Before the present war, autarchy in the West arose from a desire to grow grain in preparation for the coming war, and from the difficulty of balancing national trade accounts. It was a reflection of the underlying world crisis of capitalism resulting from the inherent gulf between production and consumption.

The magnitude of the problem and the impossibility of a capitalist solution are revealed, whatever the intentions of the author, in a recent paper by Mr. P. N. Rosenstein-Rodan.¹ Arguing in favour of "an economic unit comprising the whole area between Germany, Russia and Italy", he points out that with a pre-war population of 100-110 million this area had a national income of £2,000 million—i.e., 40 per cent of that of Britain—and that a quarter of the working population were wholly or partially unemployed. He prescribes a ten-year plan of economic development under the control of an Eastern European Industrial Trust² based on international investment. It is estimated that £4,800 million would be needed for industrialisation and £1,200 million for agricultural development. Of this total, the peasant countries would be required to find £3,600 million—i.e., devote 18 per cent of their national income to investment—a proportion equal to that of Russia. Calculating that their national income might rise at an annual rate of 4 per cent and assuming a rate of investment of 12 per cent, Mr. Rosenstein-Rodan concludes that, even if the Western capitalist Powers provided £2,400 million, only £3,000 million could be found by Eastern Europe itself. Only 70-80 per cent of the unemployed could be absorbed, and considerable emigration would have to supplement industrialisation. In the light of our argument in Chapter V, it is highly improbable, to say the least, that £2,400 million would be forthcoming from Western capitalism, while only an inveterate optimist can hope that the rivalry of the Great Powers will disappear so as to permit of the Eastern European Federation which our writer assumes as the basis of the scheme. In any case, the political and economic stability required before profit-seeking

¹ A paper written for the Royal Institute of International Affairs published in the *Economic Journal*, September 1943.

² In a footnote Mr. Rosenstein-Rodan says that this title would have to be changed since it might suggest that Eastern Europe is to be organised as a joint stock company.

capitalism would invest on an adequate scale could only be realised by capital investment.

Nevertheless the European problem cannot be solved simply by overthrowing capitalists and landlords in the various Nation States. In the overwhelmingly agrarian countries where population is rapidly rising, the ending of the toll exacted by landlords and moneylenders is important, but it will not of itself substantially reduce peasant poverty. In contrast to the East, Western countries such as Germany and Britain, possess a heavy industry out of proportion to their populations and agriculture. This heavy industry was built up on the expectation of a world market which has been rapidly disappearing under capitalism in recent years. The old saying, "iron is bread", would have some meaning even within a Socialist industrial country, if it was not attached to a larger economic bloc. We establish, therefore, the paramount need for economic planning in a European system which embraces the Western countries with disproportionate heavy industries and the poverty-stricken agrarian countries of the East and South-east.

Autarchy must cease in the West, and capital and technical knowledge of modern farming methods must be made available to the peasant countries, while irrigation schemes and organised marketing are equally indispensable.¹ In tackling peasant poverty it must be realised that a development of primary agriculture, though needed, is not by itself enough. More important is a growth of diversified farming to produce more meat, butter, cheese, eggs, fruit, etc. Julius Braunthal has referred to "the well-known fact" that "the Eastern European countries could flood the whole world with grain if the Polish and Rumanian peasant ploughed the soil two inches deeper, that, further, by irrigating the Danubian plain in Hungary, Bulgaria and Rumania—an area 20,000,000 acres larger than the ploughed land of Britain—not only

¹ See *Europe under Hitler*, Royal Institute of Foreign Affairs.

would grain yields be doubled, but lucerne and other fodder crops would become a regular feature of rotation, building up soil fertility and providing for an expansion of the livestock industry." ¹ Francis Delaisi ² has also argued that capital development would double agricultural output in the peasant countries.

In addition to agricultural development, a measure of industrialisation is necessary in order to raise the standard of life of the peoples, providing a market for the Western countries, and supplying them with materials and semi-manufactures to be used in industrial processes. One great obstacle to industrial development in the peasant countries is the absence of local supplies of power. Owing to the lack of coal, water-power must be used to create the electrical power which could promote industrial development. The International Authority Group of the Fabian Society has suggested that, given a big power-station at the Iron Gates on the Danube, the economic life of these countries could be transformed: "The Danube Valley could become the corn-hog belt, the slopes of the Carpathians the California of Europe".

Clearly the unification of Europe will have to be the work of Socialists. In economic structure, resources and potentialities, Europe qualifies as a unit for economic planning. It is well to discuss here in broad outline what is implied by the Socialist organisation of Europe as a planned economy. It should perhaps be emphasised that we are dealing not with a future millennium, a Messianic Age, but with the practical problems with which the present generation of Socialists will have to grapple in the not-distant future. The essential prerequisites of any serious attempt to organise Europe on a Socialist basis are:

1. The socialisation of land, banking, transport, power and the basic industries in each of its component parts.

¹ J. Braunthal, *Need Germany Survive?*

² F. Delaisi, *Les Deux Europees*.

2. The establishment of supra-national authority, which, at a minimum, would have to own and control banking, heavy industry, a socialised system of transport and communication, power supply and, so long as necessary, armaments and military forces. Also it would have to establish a firm control of foreign trade.

3. A central planning commission responsible to the International Authority, not merely to co-ordinate national plans, but thinking and planning in European terms to direct production, distribution and investment in accordance with European resources and needs.

These are the three essential points. It is, however, worth while pursuing our analysis a little farther. A conscious planning of economic life to satisfy human needs involves decisions as to (a) what is to be produced and in what quantities? (b) who is to produce it? (c) how much the community is to save and where its new capital should be employed? (d) what is the desirable balance between the claims of leisure and the production of additional wealth? These decisions, by their very nature, can only be taken by the Central Planning Commission, but they would be based, not upon arbitrary judgment, but upon close consultation with its subordinate agencies, territorial and functional. Socialist economic planning, therefore, implies that, having surveyed the resources at its disposal, having taken decisions on the questions of leisure and savings, the community sets to work to employ its resources to the full, thus eliminating unemployment and under-employment of labour, capital and raw materials.

It is a common objection to Socialism that in practice it would be quite impossible to control such a planning monster, and if that argument applies to a modest attempt to plan the economy of a single State, how much the truer is it of an attempt to plan a continent. This challenge must be

squarely met, because it is without doubt one of the acutest problems facing the modern world. Man's conquest of Nature has largely emancipated him from his original slavery, but the centralised power necessary for organising that conquest may threaten the substitution of a new master for an old. Before considering Socialist planning in some detail, let us emphasise that, whatever the fangs and claws of the planning monster, the monster of chaos has not been controlled, cannot be controlled, and has devastated Europe. That is why—delaying at our own peril—we must determine to slay him.

Economic mythology still declares the consumer to be sovereign, deciding by his choice all the complex problems of production. In fact, this is so only in the text-books, which Mrs. Joan Robinson has rightly declared "distract the pupil's mind from the problems of the real world". In the real world of gigantic monopolies, shaping the market to the design of profit; of an inequitable distribution of income, pulling production from essentials to luxuries; of the creation of demand by mass suggestion—here the sovereignty of the consumer in the economic world is as fictitious as the sovereignty of the small State in the political. It may be that there was a time when competition between independent employers for the factors of production and the consumers' custom did in fair measure shape production in accordance with consumers' preferences, but assuredly it does not exist today.

The experience of the Soviet Union and the theoretical systems evolved by economists¹ show that it is possible for consumers' preferences to be expressed through a pricing system, and in turn for "prices", deduced from the prices of consumers' goods, to be placed on the use of capital, land and labour, and cost accounts compiled therefrom. Clearly,

¹ See R. Hall, *The Economic System in a Socialist State*; W. B. Reddaway, *The Russian Financial System*; G. D. H. Cole, *The Machinery of Economic Planning*.

it is desirable for a Socialist economic system to produce the goods most desired by its members with the least expenditure of its limited economic resources. A financial system is necessary which will accomplish:

1. A distribution of the goods which are produced so that they satisfy the most intense wants of consumers, as indicated by their own preferences, shown by the way in which they spend their incomes.

2. The production of the goods in such proportions that the prices which clear the market of them also represent their cost to the community in terms of other goods which might have been produced in their stead.

The second problem is the more difficult, and it is convenient to discuss it first. The cost of a commodity consists of the total of the prices of the land, labour and capital used in its production. It is usually said that these prices are automatically determined under capitalism by competition between business-men for available land, labour and capital; but it is surely true that each business-man deduces the price he is prepared to pay from the price he expects to get for the finished product. It is therefore possible for a centralised planning commission, in conjunction with its subordinate agencies, to do likewise with a less margin of error, since their estimation will be based on a full knowledge of past production and prices—*i.e.*, past consumers' preferences, and also current production planned—whereas the individual business-man is not aware of the decisions of his competitors. In the initial stages an arbitrary element will be found in the costs placed on land, labour and capital. So far as labour costs are concerned, it will be possible on the basis of past evidence to draw up a rising scale of groups expressing scarcity relative to demand for the services of each group, and to place a monetary figure thereon, though clearly it would be necessary to make allowances for the

influence of trade unions and professional associations on former group incomes. So far as capital is concerned, an arbitrary cost will be decided upon. Prices will be fixed at the average planned (or marginal) cost of production, and the total price of all goods must be equal to or greater than the total incomes plus public expenditure. As soon as purchases begin it will be found that the prices contain a margin of error, owing to the conjectural nature of the estimates. In some cases sales will outstrip production, in others stocks will begin to pile up. Prices must be adjusted in accordance with demand, and data concerning stocks must be compiled. In this way modifications of planning estimates can be made, and the charges placed on the various factors can be checked in the light of the value which the consumers are placing upon particular commodities. Cost accounts are not only a guide to the best allocation of resources, but are also a means of controlling the management of factories, and in this way of eliminating waste. In Soviet Russia they appear to work better in the second than in the first way, but control of efficiency in current operations is effected by making each enterprise financially independent, and laying down a scheme of prices for all its operations, so that if it is worked with normal efficiency it will just cover all its costs and earn normal "profits". The short-term credit system is also used to check the accumulation of stocks.

It is sometimes suggested that the errors of a centralised planning commission would be so tremendous as to be a source of economic dislocation far transcending that of capitalist trade depressions, but this argument has been the stock-in-trade of economists such as Hayek, who once maintained that the Russian system, having departed from the sacred canons of bourgeois economics, simply could not work at all. It would appear to be self-evident that, given equal ability, the members of a central planning commission would be less likely to make errors of judgment than business-men within

a capitalist system, because they would have more complete data at their disposal, and would not have to face dislocations arising from imperfect knowledge as distinct from judgment. In conclusion, let it be emphasised that the miscalculations of a planning commission would have to be great indeed to equal the waste involved in the chronic existence of unused resources and the catastrophic depressions and wars of capitalist anarchy.

NATIONALISM AND IDEOLOGY *VERSUS* ECONOMICS

G. D. H. Cole ¹ has made proposals for the future organisation of Europe. As a whole his book is so constructive and stimulating that one is loath to criticise. His commentary on the economic anarchy of pre-war Europe, his emphasis on the need for Socialist economic planning, his grasp of the fundamental task of this period, the creation of a supra-national authority, are admirable, but his attempt to apply the lessons of his enquiry appears to us to be dangerous to the very cause he espouses. In view of the necessarily conjectural nature of his study, Cole propounds two possible schemes for post-war Europe, often appearing to vacillate between them. He proposes first a Western European Federation covering Great Britain, Scandinavia, Holland, Belgium, France, Spain, Portugal, Switzerland, Italy and "perhaps one or two other countries", and secondly one comprising Germany, Austria, Hungary, Czechoslovakia, Poland and the Balkan countries. At other points in the book he suggests a solution of the Balkan problem, and perhaps the German, by including these countries in the U.S.S.R. The first bloc is called "democratic", the second "totalitarian", and Cole, while arguing that East and West have something to teach one another, separates the two groups. Further, one gathers—though it is nowhere stated very clearly—that in the Western bloc the Nation States are to retain a considerable measure

¹ *Europe, Russia and the Future.*

of national identity, whereas the problem of the Balkans, and perhaps of Hungary and Poland, can be solved by inclusion in the U.S.S.R. Clearly, in his proposed solution of the European problem Cole departs from the economic criteria upon which his general argument is based and substitutes national and ideological criteria.

First, is there any really sound reason for his belief that Central and Eastern Europe are less "democratic" than the West? In the post-1918 period, even in the peasant countries, creative mass movements did emerge for a short while, and there was a "democratic" period. These movements, like their counterparts elsewhere, failed not because of innate "totalitarian" tendencies, but because they were unable—in very difficult circumstances—to hold power and solve the economic problem.¹ And as for Germany, would the British Labour Party have fared much better given an economic crisis of comparable depth? One can agree with Cole about the lack of positive intention on the part of "half-hearted and half-witted Social Democrats", but why an internationalist should pick out the German and Austrian variety for special lecturing is a little difficult to understand. This ideological predilection on Cole's part comes after a very brave assertion that though he would be most uncomfortable under Stalin's rule, he would prefer a Russian conquest of Europe to a continuation of either capitalist anarchy or social democratic poltroonery. So much for theory, but in practice the British liberal (with a small "l") gets the better of the clear-sighted and bold economist.

Turning next to the "national question", Cole solves his problem by retaining "nationalism" where it appears to him as progressive, and consigning it to the devil where it appears reactionary. France, with the glamour of 1789 and 1793, though tarnished by Laval and Pétain, is all right, but the problem of Polish nationalism, containing a dose of anti-

¹ See Oscar Paul, *Underground Europe Calling*.

Semitism and an anti-Russian bias, is "solved" by ignoring it. Yet Polish nationalism withstood the Nazi onslaught much better than French—so, if national criteria are to be adopted, will Cole's subjective categories provide a basis for a settlement? And if the national issue is to be considered, will it really make for a Socialist solution if Central and Eastern Europe are grouped—and isolated—with the German State? Let us be frank. In the phrase of Francis Delaisi, the issue today is: "Economic Reality *versus* Political Myths". The European economic problem can be solved, not on a national or ideological basis, but only on a granite foundation of economic fact.

Having permitted himself the luxury of an *excursus* into national and ideological fields, it is not surprising that Cole's proposals come into violent conflict with the *economic* problem of Europe. With France in the "democratic" bloc and Germany in the "totalitarian" bloc, what happens to the crux of the industrial problem: Lorraine iron and Ruhr coal? To dispense a solution to the European problem without even mentioning the centre of the Continent's heavy industry, while at the same time devoting chapters to "Social Morality" and "The Essentials of Democracy", shows a queer sense of proportion, and an amazing scale of values in a distinguished Socialist such as Cole. Is the Franco-German border of 1939 to remain as the frontier of the two blocs? If so, to talk of ending the "economic monstrosity" of Europe is—just talk. If not, do the Western States get the Ruhr as a victory prize? At another point Cole talks of France "leading" the Western Bloc if Britain does not enter it. The precise connotation of "lead" can only be guessed. What *will* be necessary in post-war Europe will be not hegemony by any Nation State, but a supra-national body. Whatever may be the future of France as a cultural force, it is indeed difficult to see her as a "leading" economic influence, when one remembers her as the land of the rentier and the peasant, with

her stagnant industry and the preponderance of her backward agriculture. With a frontier extending beyond the Ruhr she might do it, but that is the *sine qua non* of Cole's hypothesis. On the other hand, it would be a poor look-out for the "totalitarian" bloc if it began by the dismemberment of Germany and the loss of a substantial portion of its heavy industry.

That, however, is only a beginning to the giant problems thrown up by Cole's suggestions. If we refer back to the average income per head of the European States, we find that Cole's division of Europe would not merely be one of "democratic" and "totalitarian" States, but would also draw a line between the wealthy and the poor. The mean of the average incomes of the Western States in the pre-war period was more than twice that of the Eastern; the average income per head a fraction less than twice as great.

Like most British Socialists, Cole seems not to grasp the real nature of peasant poverty in Europe. He gives too much weight to the extortions of landowners and money-lenders, and not enough to the need for capital development and organised European marketing. This leads him to his easy "ideological-cum-national" solution, partly ignoring the decisive fact that the peasant countries need the assistance of the Western industries, which, in turn, can prosper in the post-war era only by close contact with the former. Isolation within either the Soviet Union or the low-income European "totalitarian" bloc would not solve the problem of peasant poverty. Inclusion within post-war Russia would not raise their standard of living. For as the Fabian, Doreen Warriner, has put it:

"Measured by any quantitative standard of yields per acre, output per head, or the terms of exchange between agricultural and industrial products, the position of the peasantry in Eastern Europe in general was better, before

the outbreak of war, than the position of the collective farmer in Russia.”¹

Moreover, the devastation wrought by the war in the industrial sector of Russia would scarcely make it possible for capital to be diverted to the peasant countries for a considerable period. This is not to argue against close economic relations with Russia, but merely to emphasise the natural economic *milieu* for the peasant countries in the post-war period.

Beginning with national and ideological standards for federation, Cole finally produces an economic argument for his arbitrary division into “democratic” and “totalitarian” planning units. “To attempt to do more than this would be to court disaster on account of the dangers of bureaucracy and over-centralisation.” This seems to have been an afterthought, for it does not appear until towards the end of the book, and is hardly compatible either with his scheme to include a part of Europe in Russia or with a statement on the previous page, “Nor is it necessary, or perhaps even desirable, that all Europe should be covered by a single unified plan”. There is, however, more substance in this argument than in the other objections. The dangers of over-centralisation and bureaucracy are certainly real. But a bald sentence about “courting disaster” does not solve the problem: it merely states a difficulty. If the foregoing economic analysis is correct, then to divide Europe will mean certain disaster. Fundamentally, the correctives suggested by Cole himself still hold. Planning is compatible with control from below, and workers’ and technicians’ councils in the factories and the localities must be placed firmly in the centre of the fight against bureaucracy and over-centralisation. Democracy can function only when men control the things of which they have a real grasp; it must begin in the workshop.

Having largely ignored some of the key economic problems

¹ *Left*, December 1941. An excellent article, to which we are much indebted.

of Europe, it is rather surprising to find Cole in another book¹ being "realistic" in insisting that it is little short of romanticism to expect the advanced industrial countries of Europe to provide interest-free loans for developing the backward. Men in the mass are not angels or philanthropists, he argues, and since interest-free loans would mean the foregoing of goods and services, interest will continue. Undoubtedly, the divergencies of standards of life in the various countries are an obstacle to any plan for Europe. But it is a peculiar standard of realism which leads Cole to emphasise this point so strongly as to lecture romantic Socialists, while he advocates a division of Europe into two camps, with a wide gulf in living standards, the poorer group paying interest to the richer. In the immediate post-war period Socialists are likely to have a more than even chance of leading the European peoples to Socialism. But let them ponder over Rosa Luxemburg's profound thought: "The hours of revolutions count for months in history, and their days for years". We have to work out a practical programme. Divide a Socialist Europe into "democratic" plutocracies and "totalitarian" plebeians, haggle over the payment of interest by the plebeians to the plutocracies, and the new Europe will split on the rock of economic inequality and splinter into fragments. At the centre of the problem are Lorraine iron and Ruhr coke, the major source of the industrial power which alone can sustain a Socialist regime in Europe. British heavy industry, too, will be needed as urgently as it will need Europe. Despite a thousand academic predilections, the compelling logic of economic facts dictates a supra-national authority, embracing Britain, France and Germany, and the peasant countries. A supra-national political authority and an economic plan are needed for Europe as a whole. The Socialist United States of Europe is the only way forward.

¹ *Britain in the Post-War World*, p. 64—curiously contradictory to *Europe, Russia and the Future* on many points.

CHAPTER VII

THE FUTURE OF GERMANY

BETWEEN THE TWO world wars few competent historians would have given unqualified endorsement to the War-Guilt clause of the Versailles Treaty. Indeed, a recent Austrian writer, when entering a plea of not guilty for the German people, found it necessary to be mildly critical of Dr. G. P. Gooch, Mr. E. D. Morel, Dr. Sidney Fay, Mr. J. L. Garvin and M. Elie Halévy, all of whom, he felt, underestimated the responsibility of Germany and her allies for the last war. During the present war, however, there has been an increasing tendency to regard Germany and the Germans as the prime factor in disturbing the peace of Europe during the last seventy years, and several organisations, one of them under the deceptive slogan of "Win the Peace", are espousing the cause of a punitive treaty *à la* Lord Vansittart. This attitude of mind is to be found among a few of the prominent Trade Union leaders, despite the international traditions of the Labour movement. In his presidential address to the 1942 Trades Union Congress, Mr. Frank Wolstencroft spoke thus:

"I am one of those who feel bound to recognise that a vast majority of the German people—all that mattered—were behind the Nazi gangsters when they gave effect to their policy of attempting the conquest and domination of Europe. . . . I have no time, therefore, for those who tell us that even if we destroy, absolutely and completely, the war machine of Nazi Germany, we cannot keep in check a nation of 90 million or more incorporated in the Greater Germany—forcibly incorporated, many of them—with a history and traditions that are by no means those of pre-

Hitlerite Germany. The very same people who tell us this, tell us also that it is not the German people whom we fight, but only the Nazi gangsters in control. I do not so read the history of the last eighty years—of 1864, 1870-71, 1914-18, 1939—dates which mark German wars of aggression, wars deliberately planned and brought about when Germany's rulers thought the time was favourable to their aims. . . . If we agree that the German people are prepared to accept, decade by decade, domination by a few bloodthirsty warmongers, then must the democratic peoples be fools indeed if they cannot—not in a vengeful or destructive spirit, but for the cause of peace and good will on earth for all who desire peace—hold down the German nation until they show by deeds and not words that they are willing to co-operate for the good of mankind as a whole. . . . I hate to say it, but I am convinced that until the German people, not alone their gangster rulers, have had meted out to them what they have meted out to millions of their fellow creatures . . . the German people will again, if not prevented, at some not distant date, make another attempt to enslave Europe. . . . Far, far better for the world that 80 or 90 million people should be held under bond, if necessary, than that countless millions yet unborn should be called upon to undergo what many millions have gone through twice in our lifetime.”¹

The 1943 Trades Union Congress rejected the policy outlined in this speech by a decisive vote, but Mr. Wolstencroft's utterance is a succinct summary of the view of those who indict the German people with responsibility for Nazi crimes in Europe.

In this chapter we are concerned mainly with the economic consequences of a punitive peace. It is, however, worth while

¹ Frank Wolstencroft, Presidential Address at the 1942 Trades Union Congress, *Official Report*.

to stop and check the theory of the Germanic origin of modern war in the light of history to see how far it is supported by fact. In 1915 Captain de S. O. C. Stephens¹ made an exhaustive analysis yielding the following table:

| | Number of Wars. | Total Length (in years). |
|-------------------|-----------------|--------------------------|
| Britain | 38 | 64 |
| France | 17 | 58 |
| Russia | 13 | 28 |
| Italy | 9 | 14 |
| Germany | 6 | 10 |
| U.S.A. | 5 | 11 |
| Japan | 3 | 6 |

Yet another military historian writes as follows:

"As regards aggression, the years 1870-1898 are only equalled by the age of Genghis Khan. Between 1870 and 1900 Great Britain acquired 4,754,000 sq. miles of territory . . . between 1884 and 1900 France acquired 3,583,000 sq. miles . . . and in these same years Germany, a bad last, gained 1,026,220 sq. miles."²

Thus if Black Records *must* be compiled, it will be found that Britain, during the last century, has been involved in dozens more wars, and has annexed millions more square miles, than Germany. This, of course, has nothing to do with innate vice, British or German, but arises from the later industrial development of Germany.

The main difficulty in rebutting the theorists of a punitive peace lies in the vagueness of their practical proposals. They are all agreed on the need to crush Germany by military occupation and by depriving her of the means to make war. Wolstencroft talks of "destroying, completely and absolutely", the German war machine. Though similar phrases have been used by many people, Dr. Paul Einzig,³ who in

¹ *A Century of War, 1815-1915.*

² Major-General J. F. C. Fuller, *War and Western Civilisation.*

³ Paul Einzig, *Appeasement Before, During and After the War.*

1934 published a sympathetic account of Italian Fascism, has the doubtful honour of being precise in his plans for the future of Germany. He argues that Germany should be split up into the thirty or more States which existed prior to 1871, and that the ruling dynasties should be restored. This, however, is merely preparatory to the major operation. He prescribes a considerable measure of de-industrialisation:

“All the war industries should be stamped out, and industries which could be converted for production of war materials, or even the production of machinery necessary for war industries, should be restricted. Germany should also be deprived as far as possible of the means of producing essential raw materials and fuel”.

Einzig has the merit of being definite, even if it is difficult to understand how such a policy can be advocated by a trained economist. To break Germany politically, she must be dismembered economically as well—so much of Einzig's thesis is true, as Lord Keynes¹ demonstrated in 1919. If the political and economic division of Germany is to be permanent, then the transport system, the network of railways and canals, must be broken up. Also the centralised financial system must be wrecked and customs barriers re-established. It is probable that even this would necessitate a reduction in population of a third to a half. But Einzig goes farther: Germany must be “de-industrialised to a considerable degree”. The important question is the point at which this process is to stop, because in an age when wars are fought with machines, almost every industry possesses war potential. Certainly the machine-tool industry, without which industrialism is impossible, must be rooted out.

What would be the economic consequences of Einzig's policy? In this book we have emphasised the economic interdependence of Europe and the world. What was Germany's

¹ J. M. Keynes, *Economic Consequences of the Peace*.

place in the pre-war economy of Europe and the world? In Europe, Germany ranked first in the production of manganese, pig-iron, steel, coke, pig-lead, fertilisers, lignite, aluminium, paper, electricity, butter, sugar, barley, rye and oats, and second in wheat, cotton yarn, wool yarn, motor cars, coal, wood pulp, lead ore and zinc ore. Apart from these significant facts, it is necessary to recall Lord Keynes' testimony, quoted on pages 30-31, that the European economy grouped itself around Germany.

Turning from Europe to the world, Germany was the third largest commercial centre. Moreover, she was the world's second largest producer of coke, steel, electricity, wool yarn and fertilisers; the third largest producer of coal, pig-iron, motor-cars and butter; and in world production she ranked fourth in sugar, fifth in cotton yarn and artificial silk, seventh in iron ore and eighth in wheat. In the current estimates of the world's wealth, she possessed 7 per cent.

If Einzig's policy were carried out, it would reduce the German nation to the stark alternatives—emigrate or starve. But it would do more than this. Even allowing for the dismantling and transference of some industrial equipment, Einzig's policy, running counter to the essential economic unity of the world, would certainly impoverish Europe, including Britain, making speedy recovery difficult, and its effects would be world-wide. As an "architect of ruin", Einzig out-distances the Allied statesmen at Versailles. Let it be remembered that the war itself will have ravaged Europe, and Germany in particular. In that setting, Einzig's solution would be simply a peace of annihilation, the tranquillity of the graveyard for millions. From the general beggary and chaos of Europe, nothing but tyranny and wars could arise. Smash the natural industrial centre of Europe, and with it you menace the foundation of Western civilisation and culture. The question posed by history is: Shall the West follow Greece, Rome, Assyria and Egypt into obscurity?

It is encouraging, however, that Einzig¹ has now reached the conclusion that the British people are too good-natured to adopt a logically ruthless plan for holding Germany down, because the human qualities of the common people coincide with economic reality. As a concession to the alleged sentimentality of the British people, Einzig has now worked out a modified scheme. He now advocates the transference of the German machine-tool industry to Allied countries, the dismantling of synthetic industries, and the absorption of surplus German workers in the Allied countries. This modified version of economic disarmament, though not so disastrous as its logically ruthless predecessor, would encourage economic crisis and national feeling, and would set the stage for new conflicts as surely as did the peace of 1919.

So much for Einzig's solution of the German problem. But it is probable that other supporters of a punitive peace would disclaim support for his policy, and assert that a long-term military occupation is all that is required. Let us scrutinise this project in the light of economic probabilities. If the Einzig policy is rejected, then clearly a long-term military occupation is going to be a costly business both for Britain and for Europe. Military occupation by foreign Powers will inevitably arouse national fears and hatreds. Given the size of German heavy industry, her natural resources and manpower, the conquest of Germany and the imposition of a semi-permanent dictatorship by foreign bayonets will be a formidable task. Someone will have to maintain and equip a substantial army of occupation, and the victors will have to endure the burden of huge armament expenditure.

How far can Germany be made to pay the costs of occupation? The experience of the Ruhr occupation shows that if soldiers are billeted on the civilian population, occupation morale will soon be undermined. Consequently, the Nazi method of segregation of troops from the people of the occu-

¹ Paul Einzig, *Can we Win the Peace?*

pied territory would have to be employed. Theoretically, it is possible to make the Germans supply the food, clothing, buildings and arms for the occupying forces. But the difficult economic position of Britain and the capitalist mode of production would lead vested interests in the Allied countries to object strongly to such a poaching on their market.

Moreover, a punitive peace would inevitably breed a psychology of revenge, and in the face of German war potential any policy designed to dominate Germany would necessitate a long-term militarisation of Britain. And let there be no mistake about it, this would mean the retention in the post-war period not only of military conscription, but of industrial conscription, compulsory arbitration and the war-time legislation which strikes at free Trade Unionism. It would mean also the subordination of the British industrial system to the needs of military power, with disastrous consequences to the standard of life of the British people. In support of this conclusion, history cries aloud that it is not possible to combine reaction abroad with progress at home.

Let us now examine the consequences of prolonged military occupation in terms of European economics. At best, the war and Nazi terror and famine will have killed millions of human beings, robbing us of a vast supply of that priceless economic asset, virile labour power; the 1,000 bomber raids and gigantic land battles will have wrought havoc in Europe, wrecking huge quantities of capital equipment; while the retreating German armies will assuredly devastate industry, since modern wars are largely a matter of industrial power. European industry, agriculture, commerce and transport will be thoroughly disorganised. This is the setting in which a "Carthaginian Peace" must be judged. If a speedy recovery is to take place, European economic resources will have to be used to the full. An armed truce and large-scale military occupation will seriously jeopardise the chances of recovery. The key position of Germany in the European

economy has been emphasised earlier. Ca-canny, sabotage and resistance generally are bound to be the reaction of any people to foreign conquest. Consequently German resources will be working well below capacity in the event of a military occupation. Economic anarchy, the parent of Hitlerism and war, would continue to reign in Europe, and political crises would follow. From the fertile soil of political and economic disorganisation, new wars and dictators would arise. How long in these circumstances could a military occupation survive? The human element alone would lead to a speedy breakdown.

Little need be said about the disastrous consequences of re-drawing the map of Europe on strategic or "national" lines, or of reparations policies,¹ because the earlier analysis of the economic consequences of Versailles supplies the answer. It is necessary only to underline the fact that in order to make Germany pay, her creditors had to lend her the money with which to meet their claims. In the modern world of complex economic inter-dependence of the nations, it is quite impossible for one important economy to be badly mauled, let alone destroyed, without its repercussions being world-wide.

What lies behind the call for a punitive peace, apart from the fears and hatreds inseparable from war? In our view the policy which has become known as Vansittartism is as much a working out of the historical process of British capitalism as the triumph of Hitler was the immanent logic of German capitalism. We have argued that there are but two ways out of the permanent crisis of the modern world: either the sup-

¹ The U.S.S.R. is the only State which could take reparations from a defeated Germany without damaging its own economy. Plenty does not create a problem in a Socialistic planned economy. Varga, the Russian economist, realises this in the plan he has prepared for the treatment of post-war Germany. But much of Varga's general scheme falls within our criticism of a punitive peace. At the end of the last war Kurt Eisner, a German Socialist, made the proposal that the German workers should voluntarily rebuild devastated areas. A similar policy has been suggested by Mr. H. N. Brailsford during this war, and here

pression of capitalism and its instrument the Nation State, and the creation of an international planned society under social direction, or an armaments economy and capitalist counter-revolution. Just as monopolists on the national plane have sought to sustain profit rates by keeping a part of their capital equipment idle, by dismantling ship-yards and industries, and by destroying commodities, so Vansittartism is restrictive monopoly carried into the sphere of world politics and economics. The destruction of German industrial power and a long-term military occupation would eliminate a formidable competitor and maintain an armaments economy in Britain. After the last war the capitalist counter-revolution was effectually held back from destroying the Soviet revolution by the temper of the common people. Historically, revolution is the twin sister of war. A popular battle-cry will be needed if British military force is to be used to suppress Socialist revolution in Germany, and the only hope for the capitalist counter-revolution lies in the irrational frenzy of hate-ridden peoples. We have shown earlier that Nazism cannot be finally overcome without a Socialist revolution, purging Germany of the power of the Junkers and heavy industrialists, an alliance of whom has been the basis of predatory German imperialism. That implies a Socialist Germany, the fear of which is a motive force in the demand for a punitive peace and military occupation.

The German problem, however, is not a special problem, but is part of the European. As a very useful article published by the Socialist Clarity Group ¹ has put it:

"It is historically demonstrable that Germans are not racially and inevitably aggressive. For the greater part of their history, Germans have been pacific and politically ineffective—they have been the battle-ground for other nations' wars rather than themselves invaders. Individual

¹ *Labour Discussion Notes*, May 1943.

Germans have been martial and for centuries provided mercenaries in the armies of other countries (as have, for instance, the Swiss, the Scotch and the Irish). On the whole, in the last 500 years the Germans as a people have been less aggressive than the British, but this has largely been due to special circumstances, such as the delayed national development in Germany. The truth is that Germans are neither more nor less naturally aggressive than other Western people."

The special circumstances making for Germany's passivity up to 1860, and her development as an active and aggressive factor since, have been discussed earlier in this book. So long as the "political myth" triumphs over "economic reality", and gigantic monopolies backed by Nation States fight for world economic power, so long will Germany disturb that favourable balance of power in Europe so vital to the world interests of other Powers. If the West wants a peaceful Germany, it must assist in the creation of a Socialist Germany as an integral part of a Socialist United States of Europe.

RUSSIA AND EUROPE IN THE POST-WAR
WORLD

HAVING REJECTED a solution of the European problem by the inclusion of Eastern and South-eastern Europe in the Soviet Union, we must turn our attention to the relationship between a new Europe and the Soviet Union. We do not propose to enter the already overcrowded arena to dispute the rightful boundaries of the Soviet Union on national and ethnic grounds. It is from an historical evaluation of the Russian Revolution that the likely and desirable link-up between the Soviet Union and a Socialist Europe can be understood.

There is perhaps no subject which arouses so much conflict as an attempt to estimate the true character of the Stalin regime. Even among Socialists there have been constant attempts to depict post-revolutionary Russia as the work of gods and devils, Stalin and Trotsky being chosen for these respective rôles in accordance with the preferences of the disputants. It is only possible, however, to understand both the internal and the external development of Soviet Russia in the light of a detailed attention to economic fact.

The first problem in any serious analysis of the Russian Revolution is its social significance. There have been many, including outstanding theorists of the Second International, who have insisted that the Russian Revolution was not in any sense the Socialist revolution envisaged by Marx, because the founder of scientific Socialism had maintained that the victory of the proletariat would occur in the most advanced capitalist countries. As always, it is worth while noting what Marx actually did say. He laid down a general law of capitalist development from which he deduced a theory of

Socialist revolution, expressing the view that the revolution would take place as the potentialities of the present system were exhausted. But Marx was a practical revolutionist as well as an exponent of general theories, and in this capacity he recognised exceptions to his rules. It is on record that he expected a proletarian revolution speedily to follow the delayed bourgeois revolution in Germany, though at that time Germany was not the most highly developed capitalist country.

The problems of the Russian Revolution were the subject of enquiry by the most brilliant minds in the International Socialist Movement at the beginning of this century. Among those taking part were Lenin and Rosa Luxemburg, who in creative genius rank alongside Marx, as well as Trotsky, Plechanov, Martov and Parvus. The discussion revolved around the tactics to be employed by Russian Marxists. Would Russia have to go through a bourgeois democratic revolution *à la France*?

The economic structure of Russia before the First World War consisted of a vast agrarian, semi-feudal country, with a small but fairly developed industrial core in the West, the result of investment by foreign capitalist Powers. There was general agreement among Marxists that the middle-class, on account of the delayed, and somewhat artificial, industrial development, would be quite incapable of performing the task allotted to it in the Marxian world view. The storms of popular rebellion against autocracy, an inevitable accompaniment of any revolution against Tsardom, would frighten the middle-class and drive it back into the camp of reaction. It was in these circumstances that Rosa Luxemburg and Parvus developed a unique theory of the Russian Revolution; which was embodied and extended in Trotsky's theory of the permanent revolution. Rosa Luxemburg maintained that the coming revolution could be described as either a proletarian revolution with bourgeois tasks, or a bourgeois revo-

lution with a proletarian fighting force,¹ and that its ultimate character would depend on the world situation. Unless advanced capitalist countries underwent a Socialist transformation during the same period, external capitalist attack and internal deviation from the Socialist aim would menace the conquests of the revolution. Her difference with Trotsky was that he always appeared to base the tactics of the Russian Revolution *entirely* on the world upsurge which its success would bring forth, whereas Lenin and Rosa Luxemburg denied that practical revolutionists could afford to ignore *any* of the factors in a complex situation. She differed with the Bolsheviks in that they saw only the progressive tendencies in the peasantry and were inclined to a conspiratorial, even Blanquist, form of organisation.

In its ultimate causation Luxemburg saw the Russian Revolution as a product of the contradictions of a semi-feudal society combined with those of a capitalist economy, projected into Russia partly as a result of the investment of capital in Russia by advanced Western Powers, and partly by Russia's involvement in the power politics and wars of the capitalist world. In isolation, therefore, it is to be regarded as a deviation from the Marxist "norm", as an historical leap across a normally necessary phase of economic evolution—a leap made possible only by the maturity of industrial capitalism in the West. She did not, however, see the world movement revolving around the Russian, as even the greatest of the Russian leaders, Lenin and Trotsky, were prone to do. The fact that she devoted her life mainly to the German Movement rather than to the Russian, of which as a Pole she was more naturally a part, throws into relief her conception of the Russian Revolution as an integral part of a much larger rebellion against authority. The key to an understanding of the post-revolutionary developments in Russia is to be found in this brilliant historical anticipation.

¹ See *The Junius Pamphlet*, written in 1915.

In the First World War the capitalist chain broke at its weakest link, Tsarist Russia. The overthrow of Tsardom was the beginning and not the end of the revolutionary upheaval. Of its own momentum the revolutionary tide swept on to the seizure of power by the workers and peasants. But as soon as power had been taken by the Bolsheviks, the second part of the Luxemburg theory began to be fulfilled. First, to win and retain the support of the peasantry it was necessary to sanction their seizure and division of the large estates, which, viewed from a Socialist angle, is clearly a reactionary rather than a progressive step.

"Before there stood opposed to a Socialist reform on the land a small caste of aristocratic and capitalist owners of huge estates, as well as a small minority of rich village capitalists; the expropriation of whom would be child's play by the revolutionary masses. Now after the occupation of the land there stands opposed as the enemy of a socialisation of agriculture an enormous and powerful mass of peasant proprietors who will defend their newly acquired property tooth and nail against all Socialist efforts."¹

Second, the backward nature of Russia, the illiteracy of the vast mass of the people and their lack of experience of democracy, particularly in Trade Unions, political parties and co-operatives, made the assumption of genuine popular control a matter of extreme difficulty, no matter how much a democratic system was desired. Third, the revolution soon stood face to face with the numerous armies of the counter-revolution which world capitalism sent against it. Lastly, if the new regime was to survive it had to perform the task of rapid capital accumulation ordinarily done by capitalism, and this meant a tightening of the belt today in order to provide plenty tomorrow.

Let us trace the working out of these factors in the world

¹ Rosa Luxemburg, *The Russian Revolution*.

situation existing in the period 1917-39. In the early days, industry was generally left in the hands of private capitalists, subject to the control of local factory committees, confiscation being reserved as a penalty for active opposition. But the interventionist and civil wars necessitated the introduction of military communism. Industry was nationalised, and all power placed in the hands of a new State machine of which the minor officials were often former servants of the Tsarist regime. Under the stress of danger the Bolsheviks suppressed all other parties, while the factory committees were subordinated to the central offices of the Trade Unions. The latter, in turn, were dominated by the ruling party, and, as a result of the ultra-centralism of Bolshevik organisation, real power rested for all practical purposes in the hands of a new bureaucracy. Trading, and even money, were virtually abolished and replaced by a system of planned production, rationing and requisition for military purposes. Punitive expeditions of terror were the Bolshevik answer to the peasant opposition to requisitioning decrees, but famine was widespread by 1920.

The backward condition of the Russian economy was further intensified by the ravages of the world war and later the revolutionary wars. To meet this situation it became necessary from 1921 to 1928 to adopt the New Economic Policy, under which private trade and agriculture were permitted. Small-scale concerns were loaned out by the State to co-operatives and individuals, and some industry was denationalised. N.E.P. gave Russia a much-needed respite, but it increased the power of the *kulaks* (richer peasants) and private traders, while it failed to create a productive system capable of making the U.S.S.R. a first-class Power. Then came the first Five-Year Plans, the first of which aimed at increasing production at all costs and at curbing the power of the N.E.P. men, a continued growth of whose power threatened the basis of the Revolution. The plan was partly

At this point it is necessary to examine the relationship of the Russian Revolution to the world Socialist Movement, in order to grasp the interaction between the world situation and internal happenings in Russia. The Communist International was founded as an instrument of world revolution. Looking back, its history may be divided broadly into three periods. (1) 1919-23, when the Comintern was a genuine instrument of world revolution, (2) 1923-34, when it was partly a reflection of and partly a weapon in the internal struggle in the Russian Party, (3) 1934-43, when it was simply a tool of Stalin's foreign policy. To some extent the periods overlap, but the separate stages can be clearly discerned. Because imprisonment and the Spartakus struggles prevented Rosa Luxemburg from visiting Moscow, the somewhat fragmentary contributions of Lenin's greatest contemporary to the problem of the International have been overlooked even more than her detailed appraisal of Russian Bolshevism. Despite a passionate desire to reconstruct the International, Luxemburg regarded its immediate formation as premature. This attitude arose naturally from the previously mentioned view of the Russian Revolution. She saw great dangers in the immediate establishment of an international subject to the iron discipline of Bolshevism, involving the bureaucratic centralism to which she had always been opposed. It would lead straight to domination by the Russian Party, and hold back rather than speed the revolution in the West. The spectacle of the rugged Brandler running around Moscow for directives at the height of the German Revolution of 1923, not to mention later happenings, gives point to that unheeded warning. The conception of the world revolutionary movement revolving around Soviet Russia, deriving its tactics mainly from the experience of the Russian Bolsheviks, was the underlying weakness of the Comintern from the beginning, and as time went on it increased.

The failure of the German Revolution in 1923 had its repercussions in the internal life of the Soviet Union, because it marked, so to speak, the end of the first series of crushing blows to the world revolution. In these circumstances there arose the conflict between Stalin, representing a new doctrine of "Socialism in a single country", and Trotsky, tenaciously adhering to the classical theory of world revolution. During this struggle at no time did Trotsky challenge the whole conception of a single-party dictatorship, and it is a matter of historical fact that Trotsky did as much as anyone after Lenin to strengthen the power of the bureaucracy. Indeed, Trotsky was so paralysed by his acceptance of the rôle of the vanguard party, and the need to base Russian strategy on the world movement, that he failed to appeal to the workers and peasants except in a belated and half-hearted way. Instead, Trotsky contented himself with fighting for his policy within the party, a rather futile effort, since the majority had been selected by Stalin for the express purpose of crushing the opposition. Without doubt the defeat of the German Revolution, coupled with the exhaustion of the Russian workers by the upheavals of the previous ten years, was partly responsible for the abandonment of Bolshevik internationalism. Though Stalin after his victory took over a large part of Trotsky's programme, including rapid industrialism and economic planning, Trotsky's interpretation of this period, exaggerated as always by his followers, is only partly correct. Did Stalin's policy reflected in the Comintern lead to a partial stabilisation of world capitalism? Or did the inherent recuperative powers of world capitalism produce Stalin's policy? Obviously there was an intricate interaction between the two factors. But Trotsky, the intransigent theorist of inevitable world revolution, has tended to see the abandonment of Bolshevik orthodoxy as the decisive influence in the retreat, whereas the Marxist historian can hardly fail to perceive that the inner power of recovery of world capitalism,

intensified it is true by the policy of the Comintern, was the more important factor. "Socialism in a single country" without regard to, and at the expense of, the world struggle was the well-nigh inevitable outcome of the existence of an isolated and backward workers' State whose ruling party effectively controlled an international. And the tactics of an international dictated by faction politics within a dominant party are bound to lead to one disastrous irresponsibility after another. But, as Luxemburg insisted in 1918, if blame has to be apportioned for the shortcomings of the Soviet regime, it belongs more to the workers' movement in the advanced capitalist countries than to the Russians who were left in isolation.

During the entire period increasing disparities in income have grown, not only through piece-work and Stakanovism, but by increases in the incomes and privileges of the ruling bureaucracy in industry, political administration and the Armed Forces. Mr. E. Strauss¹ has shown by a wealth of detail that the claim of the Stalin regime to have secured the irrevocable victory of Socialism is quite unfounded, and has demonstrated the falsity of the assumption that income is distributed according to work performed. One may feel inclined to reject the claim of Mr. James Burnham² that 11 or 12 per cent of the Soviet population receive approximately 50 per cent of the national income, because of the peculiarities of the Russian market and the wide range of social services. But the existence of rouble millionaires and the admitted range of incomes reveal a state of affairs which does not square with the Socialist conception of equality. Moreover, the recent tendency has been in the direction of an increase in the disparities rather than their reduction, while the right of inheritance, anathema to Socialists, has been reintroduced. The plebiscitary rule of the Stalin Government, the destruc-

¹ E. Strauss, *Soviet Russia; An Anatomy of Social History*.

² James Burnham, *The Managerial Revolution*.

tion of the power of the Soviets, the absence of any effective machinery for popular control of the Soviet State, are evidence that working-class democracy, vital to the very victory of Socialist principles, does not exist. With Mr. Strauss, we may regard the Moscow Trials as "the fight of the bureaucracy with its own revolutionary shadow", as a "distorted reflection of the conflicts within the regime".

But, even if one rejects the view that full Socialism has been established in Russia, it is necessary to adopt a basically different approach to the Russian system than to the rest of the world. Private ownership of the means of life and the profit motive have been replaced by State property and a planned economy, while the State monopoly of foreign trade has prevented a relatively backward Russia from being a sphere of exploitation for Western capitalism. A Socialistic economic basis exists in Soviet Russia, and its property relationships possess social potentialities radically different from those of the capitalist world. The experience of Russia has demonstrated that an industrial system can be built in the most difficult circumstances by an alternative method to that of capitalism, that Socialistic economic planning is not merely a matter of theory, but is also a thoroughly practicable proposition. Moreover—and this point is vital to the present work—the Russian experiment has demonstrated that upon the basis of planned economic life it is possible to solve the national question.

The difficulty of discussions about Soviet Russia is that the contending parties so often deny the obvious—*e.g.*, that Trotsky played a tremendous part in the revolution, or, at the other extreme, that the Stalin bureaucracy is capable of some progressive tasks. What we have seen in Russia is a Socialistic economic system performing the historic function of capitalism, industrialisation, in a hostile capitalist world; slowly but surely, a nationalist ideology has been substituted for a Socialist, Russian history, art and culture being re-

furnished to this end; and, finally, a form of government has arisen which is a curious mixture of feudal autocracy and of the technique of modern dictatorship made possible by industrial development. In truth, it is the working out of the Russian Revolution as a proletarian revolution with bourgeois tasks, or a bourgeois revolution with a proletarian fighting force. Was the Russian Revolution the first revolt against capitalism, or the last revolt against feudalism? In its international setting it approximated more to the former than to the latter. In its internal development, more to the latter than to the former.

Having viewed the Russian Revolution in historical perspective, we feel confident in claiming the work of the Bolsheviks for the Socialist movement. Stalin and the present rulers of Russia are no more likely to destroy the property relationships established by the Russian Revolution than Napoleon Bonaparte was able to prevent the emergence of capitalist democracy from the French Revolution.

The ultimate saving of the Socialist content of the Russian system depends on the success of European Socialism, on the founding of a Socialist United States of Europe, as a step towards a World Union of Socialist States. A social revolution in Europe will certainly have its repercussions in the Soviet Union, because it will stimulate a revival of revolutionary idealism, and will remove the basic cause of "Socialism in a single country". Mr. Strauss has expressed the view that successful uprisings in Central and Eastern Europe would bring down the Soviet bureaucracy, whose historic function derived from the failures of European Socialism in the inter-war period. This process of readjustment may extend over a considerable time, but in the end the libertarian and equalitarian values, so vital to Socialism, will assuredly win through. For within an international Commonwealth, the social potentialities of Russian property relationships will

be liberated from the restrictive influences of isolation and militarism.

In the preceding chapter we saw that a Socialist Europe would find it, not merely desirable, but imperative to forge close links with the U.S.S.R. if it was to enjoy the highest possible standards of life. This raises the problem of the post-war frontiers of the Soviet Union, a subject which is being fiercely discussed. It is not necessary to justify Stalin's foreign policy in order to assert that the Russian invasion of Finland, the Baltic States, Eastern Poland and Bessarabia was the result, not of a new, red imperialism, but simply of military strategy. Thus the frontier question is inseparably bound up with the post-war settlement in Europe. A Socialist victory in Europe would remove the main cause of the dispute, because it would end the Russian fear of capitalist encirclement and interventionist wars. That there will be quarrels between Socialist States may be readily admitted, but the removal of the dominant fear in the Russian mind would open the way to negotiation, consultation and genuine self-determination for the peoples concerned. If this appear to be a simplification of the problem, it should be remembered that the national liberty of these small States is likely to count for nothing if power politics dominate the post-war scene. All that we are here claiming is that a planned and unified Europe would go a long way towards creating the psychological conditions for a just treatment of the borderline countries, whereas the alternative to the Socialist solution promises a restoration of lawlessness in the European community.

Though the case for Socialist planning in a United Europe is overwhelming, there are both economic and political objections to an immediate amalgamation of a Socialist Europe and the Soviet Union. A large measure of internal unity is necessary within a vast economic bloc if it is to overcome the very real and complex problems confronting it. To

achieve that internal unity, the planning units must be delimited to areas possessing the requisite economic balance. Russia has built up such a system, while in Europe the problems of East and West are complementary. The difficulties inherent in the economic and political administration of an area stretching from the Atlantic to Vladivostock also argue against immediate amalgamation, as do the differences in political tradition, arising from the retarded economic development of Russia. When this has been said, there remains a strong case for close co-operation and a permanent economic council representing Europe and the Soviet Union.

What would be the relationship between a Socialist Europe, the Soviet Union and the rest of the world? In this book the question can be discussed only in a most tentative way. To begin, let us lay down the principle that autarchy and imperialism in all its forms are alien to Socialism, and that world trade is vital to Socialist prosperity. In the Far East, principally in India and China, there is emerging a progressive movement of the common people, though it is not completely Socialist. In India and China there is every possibility of the development of regimes, perhaps of an Eastern Federation, not dissimilar in some respects to the Russian, in that foreign investment has created an industrial core in predominantly peasant countries of vast resources. Clearly, the duty of a Socialist Europe and the Soviet Union would be to give a maximum of assistance to the Far East in industrial development. Given fraternal relationships, many of the birth-pangs of the Russian system could be avoided. In the Communist and Socialist movements of India and China there is reason to hope for a Far Eastern Federation enjoying good relationships with European and Russian Socialism.

Africa is a more difficult problem, because compared with India and China it is still undeveloped, but the experience of Soviet Russia shows that the national problem can be

solved, and even the most backward peoples brought forward to progressive development, once the profit-seeking incentive of imperialism has been eradicated. Of late there has been a considerable increase in the national consciousness of the African peoples, and with the establishment of Socialism in the centres of the former Empires, the way would be opened up to national freedom and industrialisation through fraternal co-operation with Russia and the advanced countries of Europe.

An all-American economic bloc is already on the way, but it is difficult to forecast its future relationships with the world. Today many of its statesmen are preaching the virtues of international co-operation, but, as we have shown, this is a reflection of its economic strength in the capitalist world. So far there has not emerged an American Socialist movement of real strength, but the alliance between the Co-operative Commonwealth Federation and Canadian industrial unions, the recent conferences at Pittsburgh and other cities, at which industrial unions have discussed political action, are some indication that we must not be surprised to see a phenomenal rise of a mass Socialist movement in North America. In Latin America, as in the Far East, there is a tie-up between progressive nationalist movements and Socialism. In both Australia and New Zealand there are signs of Socialist advance, which may prepare a basis for a link between them and a Socialist Europe. On the other hand, if they and America remains capitalist, they may gravitate towards the American economic bloc.

The probability is that there would be acute rivalry between a capitalist America and Socialism in Russia and Europe. For we are living in a period when two great economic systems are battling for mastery, both on the national and on the international plane. And the exhaustion of the American home market would drive towards imperialist expansion, particularly in the Far East, creating

another source of conflict. There is no easy way out of the prolonged crisis in which we are living. A Socialist United States of Europe enjoying fraternal relationship with Soviet Russia is but a part of the solution. We must move towards a World Union of Socialist States.

STRATEGY FOR POWER

"Determined revolutionary activity coupled with a deep feeling for humanity, that alone is the real essence of Socialism. A world must be overturned, but every tear that flows and might have been stanchd is an accusation; and a man hurrying to a great deed who knocks down a child out of unfeeling carelessness commits a crime."—ROSA LUXEMBURG.

THE INTER-WAR period was one of lost opportunities by the Socialist movement, nationally and internationally. At the end of the last war, Socialist and peasant movements were actually in power in Germany, Austria, Hungary, Italy and the Balkan countries, while in France and Britain opportunities came, but were sadly missed. It is necessary, therefore, to re-examine the outstanding questions of strategy and tactics, which have long agitated the Socialist movement.

Constitutional methods or revolution by violence? Reform or revolution? Industrial or political action? These three disputes are as old as the movement itself. The inter-war period is rich in experience which should help to resolve each of them.

In his biography of Lenin, James Maxton has remarked that the founder of Soviet Russia left a new social order to his own country, and a problem to the rest of the world.

"Can humanity progress to higher forms without collapse of existing forms, entailing widespread suffering? Can man by force of intelligence go forward to better things, or must he proceed by way of struggle, violence and brute force? History is on the side of Lenin's view. At every big change in social structure, there has been an open clash of opposing forces."¹

That physical, military force will play a part in the destruc-

¹ James Maxton, M.P., *Lenin*, p. 172.

tion of Hitler's "New Order" and the economic and social chaos in which it grew is beyond doubt in the circumstances of today. To deny on ethical grounds the desirability of a forcible eradication of social evils is to blind oneself to the political reality of the modern world—the armed State. For the weapons available to overturn the old world are of necessity those bequeathed by it. The essential tragedy of Continental Socialism, best typified in Austro-Marxism, lay in its acceptance of nineteenth-century optimism, in its belief in "progress broadening down from precedent to precedent". It sought its goal by rational argument, by constitutional methods, by humane action; and in its quest for cultural progress it failed disastrously by virtually ignoring the foundations of power in modern society. In times of crisis its opponents, not fettered in this way, rode roughshod through its superior arguments and moral precepts. When Dr. Karl Severing, the Social Democratic Minister of the Interior in Prussia, handed over control of the armed Prussian police in July 1932 with the words, "I will not be responsible for civil war", it is probable that the last chance of effective resistance to the Nazis was lost. By that action Dr. Severing and his party became responsible for the subjugation of the free organisations of the German working class and ultimately for the creation of the "mechanised Attila" which has ravaged Europe. In vain had Rosa Luxemburg, in her powerful policy speech at the foundation congress of the German Communist Party, warned the movement against abdicating the field of power politics, leaving its enemies in a position to destroy it.

No theory of social change can be a firm handrail in the upheavals which attend human progress unless it includes a sturdy ethic appropriate to its *milieu*. From Lenin one derives a conception of military force related to the specific end of social change. In his speech to the All Russian Transport Workers Congress on March 27th, 1921, he said:

"What gave this class [the Russian working class—W. P.] the moral strength to bear this privation? It is clear . . . that it had to obtain the moral strength to overcome this material privation from somewhere. . . . You know that for three and a half years all the wealthiest Powers in the world fought against us. The military forces against us were many times, immeasurably and undoubtedly superior. . . . We did not win the victory, our military forces were insignificant; the victory was won by the fact that the powers could not hurl the whole of their military forces against us. . . . The moral strength of the Russian worker was that he knew, he felt, sensed the assistance and support which the proletariat of all the advanced countries of Europe rendered him in his struggle. . . . Relying on this support, our proletariat, numerically weak, tormented by poverty and privation, won because it possessed moral strength. This is the first force."

Here the cold, calculating strategist, the master of revolutionary technique in its most brutal setting, is seen to possess an insight into the social process which produces a dependable ethic, capable of sustaining a hopelessly unequal struggle, of raising ill-clad and hungry men to fierce and heroic battle. Implicit in this speech, too long ignored by Socialists, is the view that force must derive its moral sanction from the positive social purpose it is used to serve. Military force, when viewed from this approach, must be used in harmony with the great progressive social forces of our time, which move towards the liberation of the system of production from the manacles of restrictive capitalism and the narrow limits of the Nation State, and which alone can halt humanity's drive to disaster and provide the material basis for cultural progress. In this period of human history, the choice before us is either a continuation of an outworn social system, rent by economic nationalism, contending dictatorships and war,

or a new era of civilisation based on international economic planning and political authority. The only rational ethical criterion is to weigh the costs in terms of human life and human happiness of a continuation of the old world and of the struggle for the new.

The evidence of history suggests that military force eventuates in brutality only when it is not insulated by the elemental forces making for social advance. That a price must be paid whenever an appeal to force is made is self-evident, but the liberation of new moral and cultural forces such as followed the French and Russian revolutions may more than compensate for the loss of life and liberty involved.

When used by determined men and women, this evaluation of military force creates an important barrier against militarism and Bonapartism. For example, it leads inescapably to the conclusion that those who resist the war-making State may be the custodians of moral values of crucial importance in the building of a new society, because in an important, even fundamental, sense, the action of the war-resister coincides with the struggle—even be it armed—to create the positive conditions in which peace can flourish. This paradox fits into the classic *schema* described by Professor Joad:¹

“For the Greeks ethics and politics were two aspects of a single enquiry. It was the business of ethics to determine the good life for the individual. It was the business of politics to determine the society in which the good life as prescribed by ethics could be lived.”

“Force”, wrote Marx, “is the midwife of every new society”, but as a recent writer has put it, some of his followers would make it the father, mother and child as well. The issue of force or no force, which has long divided the Socialist movement, is seen in its historical context to be

¹ C. E. M. Joad, *Guide to the Philosophy of Morals and Politics*.

completely false. In Moscow and Petrograd in 1917 armed insurrection was a practicable weapon, as it will almost certainly be again in Berlin, Paris and Vienna when the Nazi State machine begins to crack. A Socialist Britain in a capitalist world would have to maintain military forces, and would in all probability have to use them, but to insist on heavy civil war in a period of stable parliamentary government, as did the Communists in their "playing-at-soldiers" phase, is simply stupid.

Along with force or no force, reform or revolution has been the subject of constant argument in the ranks of the world Labour movement. Again, seen in historical perspective it is a misleading presentation of the question.

Rosa Luxemburg¹ as far back as 1899 gave the definitive answer to the problem of the relationship of legislative reform to social revolution.

"Historically, legislative reform and the revolutionary method function in accordance with influences that are much more profound than the consideration of the advantages of one method or the other. In the history of bourgeois society, legislative reform served to strengthen progressively the rising class till the latter was sufficiently strong to seize political power, to suppress the existing juridical system, and to construct a new one. . . . Legislative reform and revolution are not different methods of historic development that can be chosen at pleasure from the counter of history, just as one chooses hot or cold sausages. Legislative reform and revolution are different *factors* in the development of class society. They condition and complement one another, and at the same time are reciprocally exclusive, as are the North and South Poles . . . every legal constitution is the *product* of a revolution. In the history of class society, revolution is the act of

¹ Rosa Luxemburg, *Reform or Revolution?*

political creation, while legislation is the political expression of the life of a society which has already come into being. Work for reform does not contain its own force, independent from revolution. During every historic period, work for reforms is carried on only in the direction given to it by the impetus of the last revolution, and continues as long as the motive force of the last revolution continues to make itself felt. Or, to put it more concretely, in each historic period work for reforms is carried on only in the framework of the social form created by the last revolution. Here is the kernel of the problem. It is contrary to history to represent work for reforms as a long-drawn-out revolution, and revolution as a condensed series of reforms. A social transformation and a legislative reform do not differ according to their duration but according to their content. . . . That is why people who pronounce themselves in favour of legislative reform *in place of* and in *contra-distinction to* the conquest of political power and social revolution, do not really choose a more tranquil, calmer and slower road to the *same* goal, but a *different* goal. Instead of taking a stand for the establishment of a new society, they stand for surface modifications of the old society."

Thus Factory Acts, social insurance, Trade Union legislation and the Franchise Acts represent the results of the growing power of the common people and the early conflict between the landowners and the industrialists. They prepare the way for social revolution, but do not replace it. The essence of the change from capitalism to Socialism is the suppression of wage labour for private profit, and the creation of a society based on common ownership and economic equality. Within the framework of the capitalist State, wage labour cannot be suppressed by laws, because it is not expressed in laws. The act of socialising land and industry, of freeing the common people from the tyranny of the wages

system, is—regardless of the presence or absence of violence—revolution. It creates a new legislative and juridical system, expressing new property relationships. It involves a complete transformation in the basis of society. British and Continental Socialism failed in the inter-war period because it became involved in governmental power by way of coalition with capitalist forces. It became responsible for attacks on working-class standards necessitated by the crisis of capitalism. And as Fascism and reaction profited from its poltroonery, it contented itself with a sterile appeal to maintain the *status quo*, capitalist democracy, thus surrendering tactical equality with the Fascists, who demanded action. The Socialist movement failed because it surrendered its positive Socialist purpose and contented itself with trying to reform capitalism.

Another dispute which has wasted much time is that revolving around political or industrial action. In the history of the British workers' movement there is to be observed a rhythmic movement alternating between the two, and at decisive moments in social struggle there has always been concerted action with both weapons in use. The Belgian workers used the strike weapon to secure a revision of the franchise, the British workers used the threat of a general strike to restrain the British Government from war with Russia in 1920. On the other hand, in 1926 the British trade unions, during the course of an industrial conflict, found themselves in conflict with the capitalist State. The anarcho-syndicalist cry of "No Politics" ignores the problem of power in contemporary society, while the timid parliamentarian's cry of "No Strikes for political purposes" ignores the fact that in ordinary times the only effective sanction which the common people can bring to bear on the Government is a withdrawal of labour. In the inter-war period timid Socialists abandoned the industrial weapon, and concentrated on parliamentary shadow-boxing, while the Com-

munists called for general strikes so often that when the real call came it was ignored. In examining the British situation we shall discover the vital need for a complementary use of political and industrial weapons.

What is the road to power in British conditions? One cannot presume to chart the course with precision, but it is possible to deal with this problem in broad outline, and clear up some of the outstanding points. An urgent need is to break through the conception of Socialism as a Christmas present from a parliamentary majority to the good folk who have steadfastly voted Labour. This illusion has been fostered to an extent which has produced a menacing paralysis in the movement. Labour inherited the Liberal philosophy of history which saw the State as an impartial arbiter, a neutral factor in the evolution of society. The existing State machine has been fashioned to perform radically different tasks from those required by Socialism. The key positions of each section of the State—legislature, judiciary and executive—are monopolised for practical purposes by men whose entire tradition is alien to Socialist purpose, who will naturally incline to the view that a drastic policy of socialisation is little more than the vandalism of the mob, against which they are the guardians of Western civilisation and culture. Moreover, the Civil Service has developed along its own lines precisely because the industrialists have taken an historic attitude of "hands off", except in so far as they required tariffs, etc., which needed, not active industrial administration, but simply legislation. The tradition of precedent and red tape arises inevitably in a system where the active entrepreneurs seek real power for themselves, and leave but a shadowy power for the State bureaucracy.

The results of this are clearly to be observed during the present war, when the utter lack of industrial training and knowledge at the command of the Government for administrative purposes has led to the installation of industrial con-

trollers, labour officers, etc., from capitalist enterprise and Trade Unions. The cost-plus system also is a result of this state of affairs, since it is the most simple basis for computations of profit on Government contracts, given a Civil Service lacking industrial experience.

Apart from any desire, therefore, to resist and sabotage the work of a determined Socialist Government, the Civil Service is quite incapable of tackling the task of Socialist economic planning and industrial administration—this regardless of the loyalty and disinterestedness of its personnel. Clearly, if they really mean business, Socialists must fashion an alternative administrative mechanism. Where is this to be found? The industrial wing of the Labour movement is the first place to seek this essential instrument of Socialism. But, if the industrial movement is to occupy a position of vital importance in Socialist strategy, it is necessary to question whether it is at present organised in a way which facilitates successful Socialist action. For the Trade Unions have a history, and their present structure, outlook and policy are no more and no less than what their environment has made them. Looking at the movement today, we see craft prejudices still rife in a period when rationalisation is making a new approach imperative; rival unions cater for the same type of worker; there is a general lack of co-ordinated effort; and industrial pacifism has given rise to political inertia. Reports are circulating of plans for long-term alliances between some of the Unions and monopoly capitalism to parcel out the world's markets by means of cartel arrangements. In seeking to re-fashion the industrial movement, it is necessary to abandon the old cry of the "Left Wing", which depicts innately wicked leaders as culpable scoundrels, mainly responsible for all Trade Union failures. For there is a certain futility in blaming people for not doing things they have never professed any intention of doing, and this view is a travesty of Marxian method. The present bewildering struc-

ture and irritating sectionalism of the movement are due to its environment, to its tasks of yesterday, rather than to human frailties.

The British Unions arose sporadically to meet the needs of various groups of workers at various places and times. They did not follow a pre-determined plan, as did their counterparts in Germany and other countries, where definite Social Democratic teaching inspired the industrial movement. Craft unions were the first stable form of organisation to develop in this country. Classical economic theory contained an iron law of wages, and led to the view that to strike against economic—*i.e.*, natural—laws was not merely useless, but positively criminal. Under this influence the Unions strove to make the commodity they had to sell—particular labour power—scarce in relation to the demand for it. In some ways the craft Unions were an alliance of skilled workers against the unskilled, rather than against the employers.¹ By means of long-term apprenticeship systems, they sought to restrict entry into the trade, and by high dues and substantial unemployment and sickness benefits, they aimed at making the craftsman independent, loyal to his Union, and less likely to blackleg.

Today organisations such as the Mineworkers' Federation and the N.U.R., approximating to the industrial Union idea, and general Unions, lacking any discernible organisational principle, mingle with the craft Unions within the general movement. Federation and amalgamation have on the whole done something to remedy the worst defects, but the present structure is far from satisfactory. It must be emphasised, however, that the British industrial movement, as a legacy from its traditions and methods, possesses a great reserve of "tough" rank-and-file leadership which has almost invariably carried off the honours in times of crisis—*e.g.*, the Shop

¹ See Sidney and Beatrice Webb, *History of Trade Unionism*.

Steward Movement in the last war, the stopping of the Jolly George in 1920, and the General Strike.

The problem of structure is closely related to that of function. There are two views. First, it is held by some that the task of a Union is simply to obtain the best possible wage and working conditions for a particular group of workers by long-term agreements with employers, by restricting entry into the trade, etc. This was the craft conception, but its practice is much wider; the aim being not to overthrow the present system, but to make it work better from the standpoint of a particular group of workers. Secondly, it is held by others that the Union is a weapon in a war inherent in class society, and that any agreements which may be entered into with employers are but armistices in the fight to destroy capitalism.¹ There is incessant conflict between these two ideas, not merely within the Unions, but also in the heads of individual trade unionists. Tendencies towards class struggle and class harmony co-exist. Socialists would do well frankly to recognise that it often pays employers to bribe key men into industrial somnolence, that long-term agreements which renounce sympathetic action may for a time lead to concessions from employers. We may, of course, argue with truth that history tends to show that in the long run industrial pacifism does not pay, because the bargaining power of the Unions depends on their readiness to use the strike weapon. We may also argue that only the (now dwindling) world power of British capital has made purely reformist trade unionism appear a fruitful proposition. But the hard fact of temporary advantage sometimes dictating Trade Union action remains.

In the official policy of the Labour movement there is an attempt to resolve the dilemma arising from the conflicting views about the functions of the Unions. The gradual suppression of capitalism is delegated to the Labour Party,

¹ See G. D. H. Cole, *British Trade Unionism Today*.

which is largely a political reflection of the Unions, while the Unions themselves are content with trying to make the present system yield a little more to their members. This has led the official movement to discount the industrial arm in the struggle for a new society. On the basis of our argument regarding the nature of the Socialist change, this policy is disastrous. In the engineering industry there are as many Unions as there are weeks in the year, organised mainly around the tool operated, rather than the commodity produced by the worker.¹ Capitalist control of industry evolves mainly in the direction of the vertical form of control—from raw material to final product. It is therefore of strategic importance for the workers to be organised so that a group of employers faces a Union under a single control. Not merely in wages struggles, but most clearly of all in the Socialist demand for workers' control of industry, only the industrial Union, which organises vertically—*i.e.*, around the commodity produced—is a scientific instrument in the modern world. A Union embracing carpenters, whether employed on domestic houses, in shipyards, in aircraft factories, in furniture factories or in a dozen other places, is obviously quite unfitted for taking over or controlling the industrial life of the nation.

In tackling the problem of reorganisation one should look first, not at paper plans, but at the improvisations thrown up by the workers themselves. In any period when the official movement enters into a long-term truce with the employing class, the Shop Steward Movement receives considerable impetus. Shop stewards are elected to represent a shop, and here a measure of craft autonomy is recognised. The stewards come together in a factory or plant committee irrespective of Union or craft, thus helping to break down sec-

¹ At the time of writing, negotiations are proceeding which would substantially reduce the number, but it remains to be seen whether the dead weight of tradition and vested interests will succumb to the needs of modern industrial organisation.

tional barriers and build that industrial unity which can be made the foundation of a national structure of Industrial Unions. Unlike the old Minority Movement, inspired by the Communist Party, and similar efforts, the shop movement, arising as it does from the day-to-day needs of the men at the bench, does not come into conflict with the elementary and healthy loyalty felt by the average Trade Union member to his Union.

During the war there has arisen within the Trades Union Congress a demand for a drastic structural reorganisation of the entire movement. At the 1941 Congress the following resolution was tabled by the Public Employees Union:

“Realising that the failure of private enterprise to utilise the nation’s industrial and labour forces to meet the needs of war has compelled the application of extensive state control and direction; realising that private enterprise will be similarly incapable of dealing effectively with the post-war problems, the solution of which will involve national planning and a far-reaching programme of reconstruction, this Congress recognises that, as the Trade Unions are so inseparably connected with the industrial and social life of the nation, they will be greatly affected by these inevitable changes, and it is essential that they should exercise the maximum influence upon the direction these changes should take.

“This Congress also recognises that the Trade Unions, like the society in which they operate, are not static, and that they will be handicapped in the performance of their functions if, in urging national reconstruction and extensive post-war industrial and social changes, they regard their own structure as sacrosanct.

“Accordingly, Congress requires that the General Council shall forthwith examine every aspect of the Trade Union movement, including the functions and structure

of the individual Unions associated with it, with a view to reporting to a future Congress what alterations will be necessary to enable the Trade Union movement to safeguard the workers' interests to a greater degree, and to enable it to exercise the greatest influence upon the anticipated social and industrial changes, and to conform to the new needs that will arise.

"That Congress requires the examination to be on the most comprehensive lines to determine:

1. Whether general Unions shall be circumscribed or permitted to extend to all industries;
2. Whether the existing boundaries of craft Union organisation should, in the light of present and anticipated developments, be altered; and
3. Whether or not greater effectiveness would be attained if the Trade Unions were to be recast on industrial lines.

"Congress requires that the General Council shall, during its inquiry, call before it any person, or persons, who may be of assistance, and that affiliated Unions shall also be invited to submit to it both verbal and written statements for consideration.

"Congress requires that the General Council shall, as soon as possible, present the results of its examination and, if thought necessary, convene a Special Congress to consider same."

This resolution obtained the support of the Miners, the Railmen and the Engineers, but the opposition, led by the General Labour Unions, rallied a small majority. A similar fate met a resolution from the N.U.R. at the next Congress. But in 1943 the Distributive Workers' Conference accepted a resolution, moved by the present writer, instructing the Executive to sponsor the proposal at the next Trade Union

Congress. This Union's change of policy shifted the balance of power in Congress, and made certain a victory for the Industrial Unionists. The General Labour Unions thereupon decided not to offer continued opposition at this stage.

The fight for amalgamation based on industry and the demand for reorganisation through the Trades Union Congress are complementary to the effort to refashion the movement at its root—in the factories, mines, mills and workshops. If there is to be any hope of Socialism in Britain, in particular if an open clash of force is to be avoided, Socialists must build a movement suitable for the control and administration of industry.

There is another aspect of this question. The experience of Russia is instructive, in that it teaches the importance of the technical worker. If the transition to Socialism in the West is to be eased, then Socialists must win the technical and scientific workers to their banner. An early German Socialist, Ferdinand Lassalle, once remarked: "Only when science and the workers, these opposite poles in society, become one will they crush in their arms of steel all obstacles to culture". And since Lassalle wrote, this matter has taken on a desperate urgency. So far the war has given strength, not only to the Shop Steward Movement and the demand for workers' control of production, but also to the organisation of the technical staffs. The Association of Scientific Workers and the Association of Supervisory Staffs and Engineering Technicians have made considerable headway. But it is quite inadequate for the broader movement to allow these small organisations, largely pioneering efforts, to stand alone. For to win the technician for Socialism is a matter of extreme importance for the movement as a whole. A far-sighted Trade Union leadership, to say nothing of a realistic Socialist policy, would place the resources of the entire movement behind a drive to recruit the industrial technicians to the Unions, to win them for the full Socialist programme,

and to build a fighting alliance of the man at the bench and the scientific worker in the laboratory and office.

Too often the appeal to the non-manual worker has been couched in timid, uninspiring words, whereas if his unconditional allegiance to our cause is to be obtained, bold and constructive plans are the first necessity. For he sees in his daily experience how the profit-making system hampers technological advance, how it stultifies creative initiative in his profession. Only workman-like plans for a new system, which will release the pent-up forces of technology and creative human effort, will secure the energetic support of the scientific workers. Let us be quite certain that unless these men and women are recruited to the Unions in much more substantial numbers than at present, unless they are won for the positive Socialist faith, organisations catering for them will again shrink in membership as they did at the end of the last war. An opportunity of great possibilities, and unlikely to recur, will have been lost.

Is it not abundantly demonstrable from this analysis, as from the history of the international movement in the inter-war period, that standing behind any electoral and parliamentary efforts of the Socialist movement must be a powerful and dependable industrial arm, a firm alliance of the man at the bench and the technician, ready, eager and able to organise industry within a Socialist economic plan? Unless such a movement can be created, the enemies of Socialism will not need to disorganise and frustrate Socialist effort, because it will be self-defeating, and will peter out of its own accord.

In Britain, given the weight of the industrial workers in its highly specialised economy, if the authority of a Parliamentary majority were upheld by the independent organisations of the common people, unconstitutional resistance by the enemies of Socialism would stand little chance of provoking heavy civil war. At the same time, to rely on elec-

toral methods alone, even to regard them as the major aspect of the struggle, is to overlook the nature of the State power in history, and to ignore the fact that Liberal and Tory Governments, even Labour Governments, hitherto, have not sought a frontal attack on the citadels of capitalist power, have not intended drastic industrial change. Electoral and parliamentary activity by Socialists is essential in any country affording opportunities of this nature, but electoral success is healthy only when it reflects the vitality of a conscious movement of the common people in the country, and particularly in industry. The major weapon in the struggle for Socialism, involving, as it does, nothing short of a revolution in the administration of the country, must of necessity be the independent organisations of the common people, a new, though embryo, State machine fashioned to meet the needs of the present time.

What kind of programme do we require for Britain? Throughout, we are insisting that Socialists must cease to appear either as doctrinaire theorists or simply as practical politicians playing the game of ins and outs; that they must show a workable way to Socialism in terms readily grasped by the plain man. What we need is a British equivalent of Lenin's cry for "Land, Peace and Bread". In the present circumstances this means: "A Living Wage, Full Employment and Social Security". Whatever the inadequacies of the I.L.P. "Living Income" programme of the nineteen-twenties, it was significant in that it used the popular cry for a living wage as a lever for "Socialism in Our Time". It appeared thoroughly practicable, and it gave the Labour movement a self-confidence not known before nor since. It stated:

"As a Socialist organisation having for its object the establishment of the Socialist Commonwealth, the I.L.P. stands for the abolition of poverty and insecurity, and de-

sires a rapid advance to Socialism, but at the same time desires to avoid a catastrophic collapse of capitalism”.

Whether in fact it is possible to avoid a catastrophic collapse belongs to history. But the world economic crisis, the present war and the post-war economic situation of Britain, all qualify in varying degrees to be termed catastrophic. A task of Socialists, however, is to minimise as far as possible the effects of transition from one social order to another, in particular to prevent the total collapse of the technical basis of modern society, which is itself endangered in a period of economic anarchy, Fascism, dictatorship and wars, in which the 1,000 bomber raid is a weekly, if not a daily, occurrence.

We are suggesting that “A Living Wage, Full Employment and Social Security” should be made the battle cry in a campaign for a “Socialist Britain Now”. The first slogan is ameliorative, the second revolutionary. And in the circumstances of the future, neither is likely to mean much without the other. In isolation the first means little, because only thorough-going social change can provide its material foundation; the second, because academic philosophising must give way to definite plans which express the aspirations of the common people.

The assumptions on which we formulate the policy which follows are: (1) that the Labour movement learns that the first function of Government is to govern; (2) that a parliamentary majority will avail us nothing unless it reflects a movement outside which has fashioned its own, alternative, independent instruments of change and administration; (3) that there will be no nonsense about setting up impartial corporations to run socialised monopolies, while the rest of the system goes on its way untouched.

The movement has always been bedevilled by “Left” impossibilists as well as timid reactionaries. Some will have it that “Socialism at one fell swoop” is desirable, and nothing

short of that is worth attempting; others, that Socialism means the end of the wages system and of money, etc., etc. Some of these ideas are correct, others nonsense, but here we are only concerned to emphasise that a policy is something quite different from an ideal. A glance at history demonstrates that living progress does not deal in pure blacks and whites, that in every social system there are remnants of past systems and embryo forms of new. The difference between Socialists and mere reformers is not a difference between supporters of "evolution" and "revolution", as it is sometimes stated. There is a difference of goal, a conflict relating to power. The *dominant* power in a given society is the determining force. Given supreme power in the hands of Socialism, there is little danger to Socialism in compromises with non-Socialist elements, in survivals of the old system. The important thing is power over the entire economy.

On coming to power, a Socialist Government, whether parliamentary or Soviet, will be confronted with a crisis, since it will challenge the foundations of the system hitherto existing. This crisis cannot be avoided either by generous treatment of political opponents, or by slowing down the pace of change. If any Government removes the motive force in a system—in this case the profit motive—a critical situation must develop, and an alternative dynamic must be provided—in this case, Socialist economic planning. To plan the system we shall require to socialise banking, land and the principal industries, and to make inroads into every department of the national life. Resistance, some downright sabotage, some the instinctive reaction of men trained in the world of capitalism, is inevitable.

Experience indicates that a flight of capital will follow any assumption of power by Governments considered unreliable by the Stock Exchange. In considerable measure, this defeated the French Popular Front. Absolute control of the foreign exchanges is an immediate necessity if a Socialist

Government is to survive, and the penalties must be heavy. A run on the banks is the next likely occurrence, and this can be met only by a proclamation that unless it is returned within twenty-four hours it will cease to be legal tender. By this time a strike of capital in a thorough-going way will have occurred, and this can be met only by conscripting bank deposits and public investment on a large scale, coupled with a policy of rapid socialisation.

To complain that capitalists should refuse to accept the democratic verdict is neither good sense nor a guide to action. The capitalists will behave in the manner in which they have been trained to behave; they will yield when confronted with the power of a determined Government. Given centuries of profit-making, the active entrepreneur will defy the weak and respect the strong. Only a bold Socialist policy will compel these folk to come to terms with the Government; a weak policy will challenge defiance and resistance, and eventuate certainly in the downfall of the Government, and possibly in chaos.

The essential task of a Socialist Government determined upon drastic social change is to ensure that the life of the nation is maintained. As fast as capitalism ceases to deliver the goods, the new State power must take over without hesitation. It is here that a purely parliamentary Government, dependent entirely on the Civil Service to carry through socialisation, would lamentably fail. The setting up of planning commissions and departments to deal with the particular industries is quite useless, unless there exists some mechanism for carrying through their decisions with speed. This mechanism is to be found chiefly in councils of workers and technicians organised on a factory and area basis, and in the Co-operative Movement, a considerable extension of which will be both practicable and desirable, on account of its experience and resources.

Even in a frontal assault on the keen positions of capitalism,

with full employment, social security and a decent standard of life. Therein lies the significance of this transitional policy.

Tentative suggestions, or even blue-prints, are useless unless they have movements behind them. And this raises the problem of power, which is inseparably bound up with the vexed question of unity on the Left. The only straightforward solution is to be found in the vision of Keir Hardie and the pioneers of the British Labour movement. They foresaw an all-in federation of the Left to which the Trade Unions, Socialist Societies and Co-operatives could affiliate. The Labour Party was intended to meet this need, but since 1918 it has steadily become less of a federation and more of a disciplined party, practising black-listing and heresy hunting. So today we have the Labour Party, the I.L.P., the Co-operative Party, Common Wealth and the Communist Party as separate organisations, each proclaiming its intimate concern with the triumph of Socialism. Clearly these divisions mean a dissipation of energy inimical to a Socialist victory. But unity does not mean uniformity, as uninspired bureaucrats imagine. It means a voluntary union for agreed ends. It is easy for the Labour Party to state the problem in terms of the elephant and the mouse. But the fact is that, though small in numbers, the I.L.P., Common Wealth and the Communist Party each contains a much higher proportion of men and women who are utterly devoted to their political cause, and it is they who are the effective propagandists of the movement. It is true to say that the only—though nevertheless giant—significance of the Labour Party lies in the fact that it is the political expression of the Trade Unions. We need to create a broad front of the common people, united on a bold Socialist policy, within which each section has the requisite liberty to give expression to its own creative purpose. The Labour Party does not fulfil this need. It refuses affiliation to the Communist Party, Common Wealth is proscribed, while the I.L.P. declines to affiliate in

present conditions. The Communist Party, it is true, is a special problem. Persistent lying about other sections in the movement, indeed its utterly amoral attitude within the movement as well as without, makes unity with it undesirable. Nevertheless, the party still contains many devoted comrades who can contribute much to Socialism, if they freely accept the Socialist ethic, which rigorously forbids their Party's present essentially amoral practices.¹

A vital unity is urgent if we are to realise Labour's age-long objective: Must we not go back to Hardie before we can go forward to Socialism? For Hardie desired an all-in federation in which an organisation consisting of convinced Socialists—the I.L.P.—could work. We need a closely knit organisation of downright and determined Socialists, men and women who place loyalty to Socialist principle, and service to their ideal, above all other considerations. But such a body is seriously handicapped unless it is able to forge the closest links with the political expression of the Trade Unions; while without the inspiration of a dynamic faith, the mass movement of the British workers is without ultimate purpose.

Earlier we have argued that, divorced from a larger planning unit, British Socialism means very little, and that it must look primarily to Europe for the necessary alignments. What, then, must be the relationship of British Socialists to comrades in other lands? There have been three Inter-

¹ Even Professor Laski, who for years sought to establish friendly relations with the British Communists, has written of "the follies committed by the Communist Party here, and elsewhere, its tergiversations, its mania for conspiracy, its lust for personal invective, its economy in the use of truth, its fanatic zest for slogans rather than ideas, that Blanquist habit which it has so often confounded with Leninism, its naïve identification of the decisions of the Third International with the immanent dialectic of history. . . . 'I embrace my rival', says the character in Molière's comedy, 'the better to strangle him'. 'Social democracy', wrote the Communist International in 1932, 'is the principal enemy of the proletarian revolution'. That frame of mind still exists in the main body of the members of the British Communist Party. We shall not achieve a genuine unity in the working-class forces of this country while it remains; rather shall we find it disruptive of what drive towards unity we have" (*Marx and Today*, p. 22).

nationals, and already discussions are taking place regarding the building of a successor. The Labour and Socialist International failed because in reality it was not an International at all. It was simply a discussion circle which did not dare to criticise its stronger participants—for example, the German Social Democrats and the British Labour Party. The Communist International was subordinated to its Russian Party, and policies and tactics were dictated with scant regard to national traditions and local circumstances. Each of these extremes must be equally avoided in the future.

It follows from the general thesis argued in this book that the paramount need is the creation of a European Socialist Party, conducting all its work (agitation, propaganda, fighting elections, etc.) in every country on a common platform of a Socialist United States of Europe. The organisational structure of such a party is difficult, but its basis in principle is clear. All *major* matters of policy and tactics must be discussed and determined by the European Party, which must intervene actively in the problems of its national groupings. But decisions on the implementation of policy and tactics in the different countries must be subject to a substantial measure of local autonomy. However great the problems of European Socialist unity, it is clear that until the International Centre becomes the focal point of Socialist activity, one thing is sure: we shall find the hosts of capital invincible.

If organisational unity between European Socialists has been sadly lacking, that between the European Parties and the colonial peoples has been much worse. In general, the colonial peoples are thoroughly justified in saying that the Socialists of the metropolises have betrayed them. Here, again, arises the problem of rigid centralism and no contact at all. To subordinate the direction of colonial movements to the party in the metropolis, as the Communist International did in some instances, is the queerest form of anti-imperialism. We suggest African and Asiatic parties, probably on

a basis broad enough to encompass progressive nationalist movements not fully Socialist. They must enjoy the fullest material and moral support of the European Party. An American party covering the whole continent is an obvious extension of the above idea. The Latin American States are in considerable measure economic colonies of the U.S.A., and in view of the world power of the U.S.A. this party will occupy a sector of enormous importance in the International Socialist Front. New Zealand and Australia might unite as an Australasian Party, or be linked with one of the other Continental parties. These area groupings should be federated into an International.

The above suggestions regarding the new International are not put forward as a final and irrevocable blue-print. They are simply an attempt to indicate the lines along which a solution of the problem must be sought. But on one point we are adamant. The creation of a European Socialist Party with the closest tie-up with the anti-imperialist movements in the colonies is an imperative necessity.

While we have tried to lay down some of the vital points in a strategy for power, we recognise that in Europe and throughout the world the war has sharpened social antagonisms, stirred latent energies, and is releasing cataclysmic forces, the end of which no one can foresee. In the final destruction of Hitlerism in Europe there is certain to be a revival of national aspirations, but it is important to remember that Socialists have been in the forefront of the underground struggle. As Fenner Brockway has insisted, the fact that the Nazi occupation has been economic as well as political will probably mean that a movement of mass revolt against the Nazis, and Quisling industrialists who have collaborated with them, will of its own momentum drive on to the conquest of power in a Socialist sense. For when the Nazis and the Quislings are driven out, no one will be left to take over control of industry except the workers. In this

setting, the nation will continue to exist as a cultural and psychological fact, but its economic foundation, long outmoded, will have crumbled in ruins.

At this point in the anti-Fascist struggle, as many "Allied" Socialists have recognised from the beginning, the Socialist revolt against Hitler will meet opposition from the rulers of Britain and America, some indication of which has been given in Sicily and Italy, where A.M.G.O.T. has maintained the power of Fascist landowners and industrialists. This makes the responsibility of British Socialists the greater. It is highly probable that the conclusion of the present war will see a major international struggle for Socialism, and that the international organisation we have advocated will arise with, rather than precede, the Socialist transformation, as an improvised tactical weapon forged in the heat of struggle, rather than as a well-prepared instrument designed from blue-prints.

We are, indeed, at the end of an economic system, at the cross-roads of history. Never before have such opportunities presented themselves to the human race. A new era of abundance and leisure within a new international order awaits our conquest. On the other hand, seldom have the dangers to the foundations of human civilisation been so menacing. If we are to prevent capitalism, in dying, from bringing down human civilisation in ruins, we must tackle the economic problem of the peace with resolution. We must create an international economic system, planned under social direction by an international political authority. And that means that we must build a Socialist United States of Europe, and move towards a World Socialist Union.

